

Registration No. 198201014849 (94613-X)

HONG LEONG ASSURANCE BERHAD
(Incorporated in Malaysia)

**REPORTS AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2023**

HONG LEONG ASSURANCE BERHAD

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2023

The Directors have pleasure in submitting their report together with the audited financial statements of the Company for the financial year ended 30 June 2023.

PRINCIPAL ACTIVITIES

The Company is engaged principally in the underwriting of life insurance business, including investment-linked and annuity businesses. There have been no significant changes in the nature of the principal activities during the financial year.

FINANCIAL RESULTS

Net profit for the financial year

RM'000

283,986

DIVIDENDS

Since the last financial year ended 30 June 2022, a final single-tier dividend of 15 sen per share amounting to RM30.0 million in respect of the financial year ended 30 June 2022, was paid on 8 November 2022.

As at the date of the financial statements, the Directors have not recommended any final dividend to be paid for the financial year under review.

SHARE CAPITAL

There were no changes in the issued and paid-up share capital of the Company during the financial year.

RESERVES AND PROVISIONS

There were no material transfers to or from reserves or provisions during the financial year other than those disclosed in the financial statements.

PROVISION FOR INSURANCE LIABILITIES

Before the financial statements of the Company were made out, the Directors took reasonable steps to ascertain that there were adequate provisions for its insurance liabilities in accordance with the valuation methods specified in Part D of the Risk-Based Capital ("RBC") Framework for licensed insurers issued by Bank Negara Malaysia ("BNM").

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2023 (CONT'D)

BAD AND DOUBTFUL DEBTS

Before the financial statements of the Company were made out, the Directors took reasonable steps to ascertain that action had been taken in relation to the writing off of bad debts and the making of allowance for doubtful debts and satisfied themselves that all known bad debts had been written off and adequate allowance had been made for doubtful debts.

At the date of this report, the Directors are not aware of any circumstances that would render the amount written off for bad debts or the amount of the allowance for doubtful debts in the financial statements of the Company inadequate to any substantial extent.

CURRENT ASSETS

Before the financial statements of the Company were prepared, the Directors took reasonable steps to ensure that the values of current assets, other than debts unlikely to be collected in the ordinary course of business, have been written down to amounts which they might be expected to be realised.

At the date of this report, the Directors are not aware of any circumstances which would render the values attributed to current assets in the financial statements of the Company misleading.

VALUATION METHODS

At the date of this report, the Directors are not aware of any circumstances which have arisen that would render adherence to the existing methods of valuation of assets or liabilities of the Company misleading or inappropriate.

CONTINGENT AND OTHER LIABILITIES

At the date of this report, there does not exist:

- (a) any charge on the assets of the Company that has arisen since the end of the financial year to secure the liabilities of any other person; and
- (b) any contingent liability of the Company that has arisen since the end of the financial year.

No contingent or other liability of the Company has become enforceable or is likely to become enforceable within the period of twelve months after the end of the financial year which, in the opinion of the Directors, will or may substantially affect the ability of the Company to meet its obligations as and when they fall due.

For the purpose of the above paragraph, contingent or other liabilities do not include liabilities arising from contracts of insurance underwritten in the ordinary course of business of the Company.

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2023 (CONT'D)**CHANGE OF CIRCUMSTANCES**

At the date of this report, the Directors are not aware of any circumstances not otherwise dealt with in this report or the financial statements of the Company which would render any amount stated in the financial statements misleading.

ITEMS OF AN UNUSUAL NATURE

The results of the operations of the Company during the financial year were not, in the opinion of the Directors, substantially affected by any item, transaction or event of a material and unusual nature.

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature which is likely, in the opinion of the Directors, to affect substantially the results of the operations of the Company for the financial year in which this report is made.

SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

There were no significant events during the financial year under review.

SUBSEQUENT EVENTS AFTER THE FINANCIAL YEAR

There were no material subsequent events after the financial year that require disclosure or adjustments to the financial statements.

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2023 (CONT'D)

DIRECTORS

The Directors of the Company who have held office during the financial year and during the period from the end of the financial year to the date of this report are:

YBhg Tan Sri Quek Leng Chan
(Chairman, Non-Independent Non-Executive Director)

Mr Tan Kong Khoon
(Non-Independent Executive Director)

Ms Shalet Marian
(Independent Non-Executive Director)

Mr Sim Hong Kee
(Independent Non-Executive Director)

Ms Koid Swee Lian
(Independent Non-Executive Director)

YBhg Dato' Ng Wan Peng
(Independent Non-Executive Director)

Mr Mitsuru Yasuda
(Non-Independent Non-Executive Director)
(Appointed with effect from 17 July 2023)

Mr Masayuki Takahashi
(Non-Independent Non-Executive Director)
(Resigned with effect from 17 July 2023)

Directors' remuneration

The remuneration in aggregate for Directors of the Company for the financial year is as follows:

Directors of the Company

	RM'000
■ Directors' fees	625
■ Directors' other emoluments	4,992

There was no amount paid to or receivable by any third party for services provided by Directors of the Company.

During the financial year, Directors and Officers of the Company are covered under the Directors' & Officers' Liability Insurance in respect of liabilities arising from acts committed in their capacity as, inter alia, Directors and Officers of the Company subject to the terms of the policy. The total amount of Directors' & Officers' Liability Insurance effected for the Directors & Officers of the Hong Leong Financial Group Berhad ("HLFG") Group was RM10 million. The total amount of premium paid for the Directors' & Officers' Liability Insurance by the HLFG Group was RM71,250 (2022: RM84,550) and the apportioned amount of the said premium paid by the Company was RM5,291 (2022: RM6,593).

Details of Directors' remuneration are set out in Note 23(b) to the financial statements.

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2023 (CONT'D)

CORPORATE GOVERNANCE

Corporate Governance is the process and structure used to direct and manage the business and affairs of the Company towards enhancing business prosperity and corporate accountability with the ultimate objective of realising long term shareholder value, whilst taking into account the interest of other stakeholders.

The Board of Directors ("Board") also reviewed the manner in which the Bank Negara Malaysia ("BNM") policy document on Corporate Governance ("BNM CG Policy") is applied in the Company, where applicable, as set out below.

A. Board of Directors ("Board")

I Roles and Responsibilities of the Board

The Board assumes responsibility for effective stewardship and control of the Company and has established Terms of Reference ("TOR") to assist in the discharge of this responsibility.

In discharging its responsibilities, the Board has established functions which are reserved for the Board and those which are delegated to management. The key roles and responsibilities of the Board are set out in the Board Charter, which was reviewed periodically by the Board. The Board Charter is published on the Company's website. The key roles and responsibilities of the Board broadly cover formulation of corporate policies and strategies; overseeing and evaluating the conduct of the Company's businesses; identifying principal risks and ensuring the implementation of appropriate systems to manage those risks; and reviewing and approving key matters such as financial results, investments and divestments, acquisitions and disposals, and major capital expenditure and such other responsibilities that are required as specified in the guidelines and circulars issued by BNM from time to time.

The day-to-day business of the Company is managed by the Group Managing Director/Chief Executive Officer ("GMD/CEO") who is assisted by the management team. The GMD/CEO and her management team are accountable to the Board for the performance of the Company. In addition, the Board has established Board Committees which operate within clearly defined TOR primarily to support the Board in the execution of its duties and responsibilities.

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2023 (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

A. Board (cont'd)

I Roles and Responsibilities of the Board (cont'd)

To discharge its oversight roles and responsibilities more effectively, the Board has delegated the independent oversight over, inter alia, internal and external audit functions and internal controls to the Group Board Audit Committee ("GBAC") under HLA Holdings Sdn Bhd ("HLAH"); and risk management to the Group Board Risk Management Committee ("GBRMC") under HLAH. The Nomination Committee ("NC") is delegated the authority to, inter alia, assess and review Board, Board Committees and GMD/CEO appointments and re-appointments and oversee management succession planning. Although the Board has granted such authority to Board Committees, the ultimate responsibility and the final decision rest with the Board. The chairmen of Board Committees report to the Board on matters dealt with at their respective Board Committee meetings. Minutes of Board Committee meetings are also tabled at Board meetings.

There is a clear division of responsibilities between the Chairman of the Board and the GMD/CEO. This division of responsibilities between the Chairman and the GMD/CEO ensures an appropriate balance of roles, responsibilities and accountability.

The Chairman leads the Board and ensures its smooth and effective functioning.

The GMD/CEO is responsible for formulating the vision and recommending policies and the strategic direction of the Company for approval by the Board, implementing the decisions of the Board, initiating business ideas and corporate strategies to create competitive edge and enhancing shareholder wealth, managing the day-to-day operations of the Company and tracking compliance and business progress.

Independent Non-Executive Directors are responsible for providing insights, unbiased and independent views, advice and judgment to the Board and bring impartiality to Board deliberations and decision-making. They also ensure effective checks and balances on the Board. There are no relationships or circumstances that could interfere with or are likely to affect the exercise of the Independent Non-Executive Directors' independent judgment or their ability to act in the best interest of the Company and its shareholders.

The Board observes the Code of Ethics for Company Directors established by the Companies Commission of Malaysia ("CCM") which is available at CCM's website at 'www.ssm.com.my'. In addition, the Company also has a Code of Conduct and Ethics that sets out sound principles and standards of good practice which are to be observed by the employees. A Whistleblowing Policy has also been established by the Company and it provides a structured channel for all employees of the Company and any other persons providing services to, or having a business relationship with the Company, to report any concerns about any improper conducts, wrongful acts or malpractice committed within the Company.

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CORPORATE GOVERNANCE (CONT'D)

A. Board (cont'd)

II Board Composition

The Board currently comprises seven (7) Directors. The seven (7) Directors are made up of one (1) Executive Director and six (6) Non-Executive Directors, of whom four (4) are independent.

The Company is guided by BNM CG Policy in determining its board composition. The Board shall determine the appropriate size of the Board to enable efficient and effective conduct of Board deliberation. The Board shall have a balance of skills and experience to commensurate with the complexity, size, scope and operations of the Company. Board members should have the ability to commit time and effort to carry out their duties and responsibilities effectively.

The Board recognises the merits of Board diversity in adding value to collective skills, perspectives and strengths to the Board. The Board will consider appropriate targets in Board diversity including gender balance on the Board and will take the necessary measures to meet these targets from time to time as appropriate.

Based on the review of the Board composition in July 2023, the Board is of the view that the current size and composition of the Board are appropriate and effective for the control and direction of the Company's strategy and business. The composition of the Board also fairly reflects the investment of shareholders in the Company.

III Board Meetings

The Board met six (6) times during the financial year ended 30 June 2023 with timely notices of issues to be discussed. Details of attendance of each director are as follows:

<u>Directors</u>	<u>Attendance</u>
YBhg Tan Sri Quek Leng Chan (Chairman)	6/6
Mr Tan Kong Khoon	6/6
Ms Shalet Marian	6/6
Mr Sim Hong Kee	6/6
Ms Koid Swee Lian	6/6
YBhg Dato' Ng Wan Peng	6/6
Mr Mitsuru Yasuda <i>(Appointed with effect from 17 July 2023)</i>	*
Mr Masayuki Takahashi <i>(Resigned with effect from 17 July 2023)</i>	6/6

Note:

* The Board Meetings were held before Mr Mitsuru Yasuda's appointment.

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CORPORATE GOVERNANCE (CONT'D)

A. Board (cont'd)

Directors' Profile

YBHG TAN SRI QUEK LENG CHAN

Chairman/Non-Executive/Non-Independent

Age 80, Male, Malaysian

YBhg Tan Sri Quek Leng Chan is qualified as a Barrister-at-Law from Middle Temple, United Kingdom. He has extensive business experience in various business sectors, including financial services, manufacturing and real estate.

YBhg Tan Sri Quek is the Chairman of Hong Leong Assurance Berhad ("HLA") and was appointed to the Board of HLA on 20 December 1982. He is a member of the Remuneration Committee ("RC") of HLA.

He is the Chairman & CEO of Hong Leong Company (Malaysia) Berhad, a public company; Chairman of HLFM and Hong Leong Bank Berhad ("HLB"), both companies listed on the Main Market of Bursa Malaysia Securities Berhad. He is also the Chairman of the Council of Members of Hong Leong Bank Vietnam Limited.

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CORPORATE GOVERNANCE (CONT'D)

A. Board (cont'd)

Directors' Profile (cont'd)

MR TAN KONG KHOON

Executive Director/Non-Independent

Age 66, Male, Singaporean

Mr Tan Kong Khoon holds a Bachelor of Business Administration degree from Bishop's University, Canada and is an alumnus of the Harvard Business School Advanced Management Program. He is a Chartered Banker of the Asian Institute of Chartered Bankers.

Mr Tan is the President & CEO of HLFGB. He was the GMD/CEO of HLB from 1 July 2013 to 4 February 2016. Prior to joining HLB, Mr Tan was the Group Executive, Consumer Banking Group of DBS Bank Ltd ("DBS") from 1 December 2010 to 15 April 2013 where he led and managed strategy formulation and execution for consumer banking globally across the DBS Group.

Mr Tan began his banking career with DBS in 1981. Since then, he has successfully built consumer banking franchises across multiple markets in Asia for Citibank, Standard Chartered Bank and ANZ Bank.

From March 2007 to December 2009, Mr Tan was President & CEO of Bank of Ayudhya, the fifth largest financial group in Thailand listed on the Thailand Stock Exchange. The group businesses included commercial and investment banking, life and non-life insurance, stock broking, asset management and consumer finance subsidiaries.

Mr Tan was appointed to the Board of HLA on 5 April 2016 and is a member of the NC of HLA.

Mr Tan is the Chairman of Hong Leong Capital Berhad and a Director of HLFGB and HLB, companies listed on the Main Market of Bursa Malaysia Securities Berhad; and a Director of Hong Leong Investment Bank Berhad, a public company. He is also the Chairman of Hong Leong Bank (Cambodia) PLC and Chief Controller on the Board of Controllers of Hong Leong Bank Vietnam Limited.

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CORPORATE GOVERNANCE (CONT'D)

A. Board (cont'd)

Directors' Profile (cont'd)

MS SHALET MARIAN

Non-Executive Director/Independent

Age 67, Female, Malaysian

Ms Shalet Marian is a member of the Malaysian Institute of Certified Public Accountants and Malaysian Institute of Accountants.

Ms Shalet Marian's career as a public accountant with a specialization in tax spanned over 30 years. In addition, she has a wealth of experience in finance and risk management. In KPMG Malaysia, she held various senior positions including Head of Corporate Tax, Head of Indirect Tax, Head of Finance and Administration and Country Risk Manager. She took an early retirement in 2010 to refresh her skills in people management.

She had expanded her repertoire into the field of human and personal development. She is certified in Neuro Linguistic Programming, Lifeline Techniques, Cognitive Behaviour Models and Aubrey Daniels Institute's certification in behavioural based performance management technologies incorporating Performance Management and Coaching for Rapid Change in Business. She also gained certification in Malaysian Goods and Services Tax (GST) from the Royal Malaysian Customs Department in 2013. She obtained the Human Resources Development Fund (HRDF) Certification in Training in 2017.

Ms Shalet Marian was appointed to the Board of HLA on 16 June 2016 and is a member of the NC of HLA. She is also a member of the GBAC under HLAH.

Ms Shalet Marian was the Chief Executive of Lejadi Foundation, a non-profit organization until 31 July 2023. She acted as an advisor and consultant in technical matters to MustaphaRaj Sdn Bhd, a consultancy firm until 31 December 2015.

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CORPORATE GOVERNANCE (CONT'D)

A. Board (cont'd)

Directors' Profile (cont'd)

MR SIM HONG KEE

Non-Executive Director/Independent

Age 67, Male, Malaysian

Mr Sim Hong Kee has attended the Harvard Business School's Senior Management Development Program and the IBM Asia Pacific Advanced Management School. He qualified as a Chartered Accountant after completing the Malaysian Institute of Certified Public Accountant ("MICPA") examination in 1980 and is a member of the Malaysian Institute of Accountants (MIA); MICPA and the Institute of Corporate Directors Malaysia (ICDM).

Mr Sim began his career under a 4-year articleship with a public accounting firm before joining IBM Malaysia ("IBM") where, over a period of about 31 years, he held various senior local and regional leadership positions in the areas of financial planning; pricing; treasury operations; real estate strategy; taxation; legal; business controls; joint venture evaluation and formation; leasing operations; accounting, sales, and credit control.

Some of the senior positions he held in IBM include: Executive Assistant of Asia Pacific Chief Financial Officer; Chief Financial Officer; Country Marketing Operations Manager; ASEAN/South Asia Y2K Executive to lead the successful Y2K transition for all customers and IBM operation; Senior Manager for Key Accounts; ASEAN/South Asia Regional Project Management Office Leader for the divestment and transition of IBM's PC and Printer businesses and Senior Manager of Credit Centre of Excellence for the Asia Pacific, South Korea, Japan and India. He retired from IBM in 2015. He held the position of Finance and Human Resource Director of Oracle Malaysia from 1995 to 1997.

Post retirement, he was appointed as Senior Advisor of a leading local private equity company: Creador Sendirian Berhad, to set up the Business Process and Internal Audit team, and to provide oversight to the team on business process and procedural reviews, policies, compliance audits and ERP solution implementation of the investee companies in Malaysia, Indonesia and Philippines. He was in this role for 6 years from April 2016 to April 2022.

Mr Sim was appointed to the Board of HLA on 17 September 2020 and he is the Chairman of the NC and a member of the RC of HLA. He is also the Chairman of the GBRMC and a member of the GBAC under HLAH.

Mr Sim is currently an Independent Non-Executive Director of Tricor Trustco (Labuan) Ltd and Mesiniaga Berhad ("Mesiniaga"), an IT system integrator and solution provider listed on the Main Market of Bursa Malaysia Securities Berhad. At Mesiniaga, he is the Chairman of the Audit and Risk Management Committee and a member of the Nomination and Remuneration Committee.

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2023 (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

A. Board (cont'd)

Directors' Profile (cont'd)

MS KOID SWEE LIAN

Non-Executive Director/Independent

Age 65, Female, Malaysian

Ms Koid Swee Lian graduated in 1981 with a Bachelor of Laws (Honours) degree from the University of Malaya and was called to the Malaysian Bar as an Advocate & Solicitor in 1983.

Ms Koid was a career officer of BNM for more than 30 years from 1981 until her retirement in 2013 and had held various senior positions including Deputy Director of Legal Department, Head of Financial Intelligence Unit and her last position with BNM being the Director of Consumer and Market Conduct Department. During her tenure with BNM, Ms Koid was also appointed as the inaugural Secretary to the National Coordinating Committee to Counter Money Laundering.

Ms Koid was a member of an international team of experts from the Financial Action Task Force and Asia Pacific Group on Anti-Money Laundering ("AML") that conducted a joint mutual evaluation of the USA's AML regime in 2005 to 2006. She had collaborated with various national and international organisations such as the World Bank, International Monetary Fund, Organisation for Economic Co-operation and Development, Consultative Group to Assist the Poor, and Alliance for Financial Inclusion where Ms Koid was engaged to speak at various forums on AML/Anti-Terrorist Financing, financial consumer protection and financial education.

From 2008 to 2011, Ms Koid was appointed by BNM to serve as a Board member of the Credit Counseling and Debt Management Agency (Agensi Kaunseling dan Pengurusan Kredit or AKPK), BNM's wholly-owned subsidiary. She was seconded to AKPK as Chief Executive Officer from 2011 to 2014 where she had led the agency in elevating adult consumers' financial literacy and eliminating their financial hardship with debt relief programmes.

Ms Koid was appointed to the Board of HLA on 26 February 2021. She is the Chairman of the RC of HLA and a member of the GBRMC under HLAH.

Ms Koid is currently a board member of Deutsche Bank (Malaysia) Berhad, Genting Berhad and HLAH. In addition, she was a public interest director on the Board of the Federation of Investment Managers Malaysia (FIMM) appointed by Securities Commission. She was also an Adviser for the Consumer Financial Education Initiative of the Financial Planning Association of Malaysia (FPAM).

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2023 (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

A. Board (cont'd)

Directors' Profile (cont'd)

YBHG DATO' NG WAN PENG

Non-Executive Director/Independent

Age 59, Female, Malaysian

YBhg Dato' Ng Wan Peng holds a Bachelor of Computer Science degree from the Universiti Sains Malaysia and is an alumnus of the Harvard Business School of Senior Executive Leadership Program.

YBhg Dato' Ng is a competent leader and highly motivated professional with more than 30 successful years in the Information and Communication Technologies industry spanning the corporate and Government Investment Company environment. She adopts the results driven approach in the development of comprehensive strategies and implementation of actions to support business goals and objectives.

YBhg Dato' Ng began her career as a Systems Engineer in Uniphone Sdn Bhd under the Sapura Group and moved up the ranks to Program Manager before leaving to join Malaysia Digital Economy Corporation (formerly known as Multimedia Development Corporation) ("MDEC") in 1998. During her 22 years at MDEC, YBhg Dato' Ng held various senior leadership roles with her last position being the Chief Operating Officer. During her tenure with MDEC, she had successfully led and driven various notable large-scale projects, ranging from Digital Inclusion/Gig Economy, Digital Transformation, Fintech Ecosystem, Digital Free Trade Zone and e-Commerce Ecosystem.

For the period from February 2021 to October 2022, YBhg Dato' Ng was appointed as the President of Big Bad Wolf Ventures Sdn Bhd, a company engaging in retail and wholesale business in Malaysia and abroad, where she was tasked to lead and drive the group's technology and digital transformation to achieve the group's business expansion.

YBhg Dato' Ng was appointed to the Board of HLA on 1 June 2021 and is a member of the Group Board Information and Technology Committee under HLFG.

YBhg Dato' Ng is currently a Board member of Securemetric Berhad, Iris Corporation Berhad and Autocount Dotcom Berhad, companies listed on the ACE Market of Bursa Malaysia Securities Berhad ("Bursa Malaysia"). She is also a Board member of Fraser & Neave Holdings Bhd, a company listed on the Main Market of Bursa Malaysia and a Board member of NanoMalaysia Berhad, a company limited by guarantee under the Ministry of Science, Technology and Innovation. She also serves as a member of the Council of Universiti Tunku Abdul Rahman.

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2023 (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

A. Board (cont'd)

Directors' Profile (cont'd)

MR MITSURU YASUDA

Non-Executive Director/Non-Independent

Age 49, Male, Japanese

Mr Mitsuru Yasuda holds a Bachelor of Arts in Social Science degree from Waseda University in Japan and a Certified Public Accountant (CPA) license in Japan.

Mr Yasuda has over 26 years of experience in life insurance, merger and acquisition ("M&A") advisory and audit businesses. He joined Mitsui Sumitomo Insurance Company, Limited, Japan ("MSIJ") in 2015 and took on a supervisory role in Sinarmas MSIG Life ("Sinarmas"), a life insurance subsidiary of MSIJ in Indonesia through participation at Sinarmas' Board meetings as an observer and provided advices from a shareholder's standpoint on areas such as sales channel and product portfolio management, budget and profit management as well as risk management.

Prior to joining MSIJ, Mr Yasuda spent 12 years with Deloitte in its M&A advisory function in both Tokyo and New York. During his tenure with Deloitte, he had provided accounting and tax advice as well as valuation support to his clients which included both life and non-life insurance companies. He had also spent 4 years with Ernst & Young (E&Y), Tokyo in its audit function before joining Deloitte.

Mr Yasuda is currently the General Manager of the International Business Planning Department of MS&AD Insurance Group Holdings, Inc. ("MS&AD") and the Asian Life Insurance Business Department of MSIJ respectively. He takes on a strategic role in assisting MS&AD's investments on overseas life insurance businesses by analysing accounting/ tax impacts, optimising transaction structures and estimating value of the business to be invested which include the additional share purchases of Sinarmas and Reassure in United Kingdom.

Mr Yasuda was appointed to the Board of HLA on 17 July 2023.

Mr Yasuda is currently a Non-Executive Director of both Max Financial Services Limited, a listed entity on the Bombay Stock Exchange and the National Stock Exchange of India, and its subsidiary in India, Max Life Insurance Company Limited as a representative of MSIJ. He supervises the life insurance business through its Board and various Committees including Risk Management, Audit, Investment and others. Mr Yasuda is also a Director of Hong Leong MSIG Takaful Berhad ("HLMT"), a public company.

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2023 (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

A. Board (cont'd)

Directors' Training

The Company recognises the importance of continuous professional development and training for its Directors.

The Company is guided by a Directors' Training Policy, which covers an Induction Programme and Continuing Professional Development ("CPD") for Directors of the Company. The Induction Programme is organised for newly appointed Directors to assist them to familiarise and to get acquainted with the Company's business, governance process, roles and responsibilities as Director of the Company. The CPD encompasses areas related to the industry or business of the Company, governance, risk management and regulations through a combination of courses and conferences. A training budget is allocated for Directors' training programmes.

The Company regularly organises in-house programmes, briefings and updates by external and its in-house professionals. The Directors are also encouraged to attend seminars and briefings in order to keep themselves abreast with the latest developments in the business environment and to enhance their skills and knowledge. Directors are kept informed of available training programmes on a regular basis.

The Company has prepared for the use of its Directors, a Director Manual which highlights, amongst others, the major duties and responsibilities of a Director vis-a-vis various laws, regulations and guidelines governing the same.

In assessing the training needs of Directors, the Board has determined that appropriate training programmes covering matters on corporate governance, finance, legal, risk management and/or statutory/regulatory compliance, be recommended and arranged for the Directors to enhance their contributions to the Board.

During the financial year ended 30 June 2023, the Directors received regular briefings and updates on the Company's businesses, operations, risk management and compliance, internal controls, corporate governance, finance and any changes to relevant legislation, rules and regulations from in-house professionals.

The Directors of the Company have also attended various programmes and forums facilitated by external professionals in accordance with their respective needs in discharging their duties as Directors.

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CORPORATE GOVERNANCE (CONT'D)

A. Board (cont'd)

Directors' Training (cont'd)

During the financial year ended 30 June 2023, the Directors of the Company, collectively or on their own, attended various training programmes, seminars, briefings and/or workshops including:

- ASB
 - Raising Defences: Section 17A, Malaysian Anti Corruption Commission Act 2009
 - Sustainability and Its Impact on organisations: What directors need to know
- Baker McKenzie
 - A Deep Dive into NFTs
 - Integrating crypto into established financial services - Funds and listings
 - The Crypto Ecosystem
- Bank of Singapore
 - The Geopolitics Turmoil and its Impact on Family Offices with George Yeo, Former Singapore Minister of Foreign Affairs and Chairman of Kerry Logistics - Geopolitics - is the worst yet to come?
- BNM
 - Engagement session for BNM annual report 2022, Economic & Monetary Review 2022 and Financial Stability Review Second Half 2022
- BNM & PIDM
 - Roundtable on Licensing and Regulatory Framework for Digital Insurers and Takaful Operators (DITOs) Exposure Draft - Dialogue Session
- Bursa Malaysia
 - ESG Development and FTSE4GOOD ESG Ratings for All PLCs - Discovering Value Through Sustainable Practices
 - Presentation of PLC Transformation Guidebook 2 and sharing session by panellists covering their initiatives and viewpoints in embodying sustainability
- Deutsche Bank (Malaysia) Berhad
 - Global Training for Board Members and Branch Managers
 - Technology and Digitalisation
- Federation of Investment Managers Malaysia (FIMM)
 - Annual Convention & Industry Education Series 2022
 - Briefing on Revised 2023 Federal Budget by Deloitte Malaysia

HONG LEONG ASSURANCE BERHAD

Registration No. 198201014849 (94613-X)

(Incorporated in Malaysia)

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2023 (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

A. Board (cont'd)

Directors' Training (cont'd)

During the financial year ended 30 June 2023, the Directors of the Company, collectively or on their own, attended various training programmes, seminars, briefings and/or workshops including (cont'd):

- FIDE Forum
 - Can America Stop China's Rise? Will ASEAN Be Damaged?
 - The Emerging Trends Threats and Risks to the Financial Services Industry - Managing Global Risk Investment and Payment System
- FIDE Forum & The International Compliance Association
 - Understanding the Impact of Digital Transformation in the Financial Industry: What Board Members Need to Know
- Genting Berhad
 - 2023 Budget Seminar by Deloitte Tax Services Sdn Bhd
 - Awareness Session : Introduction to Integrated Reporting
- HLB
 - The Heightened Legal & Regulatory Expectations on Sanctions
- HLCCB
 - Anti-Money Laundering/Counter Financing of Terrorism & Targeted Financial Sanctions – Prevention, Detection & Collaboration in Fronting Compliance
- HLFGB
 - Anti-Bribery and Corruption Refresher Training: Revisiting Section 17A of the Malaysian Anti-Corruption Commission (MACC) Act 2009 on Corporate Liability Provision – Developing a Robust Anti-Bribery & Corruption Framework as Lines of Defence
 - Briefing on Environmental, Social and Governance by PricewaterhouseCoopers PLT
 - Presentation on Insurtech by JP Morgan Securities Asia Pte Ltd
- IBFIM
 - Just Series 2 “Governance and Reporting - Workshop 2” Implementation of Task force on Climate-related Financial Disclosures (TCFD)

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2023 (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

A. Board (cont'd)

Directors' Training (cont'd)

During the financial year ended 30 June 2023, the Directors of the Company, collectively or on their own, attended various training programmes, seminars, briefings and/or workshops including (cont'd):

- ICDM
 - Advancing Cyber Resilience: Board's Top 3 Must-Knows
 - Characteristics of ESG and Sustainability Leadership
 - Climate Change and Carbon: From the Financial Risk & Reporting Perspectives
 - ESG Disclosure At a Glance: Key Developments and Future Trends
 - ICDM Powertalk Sustainable Series: (re) Building the Board for Innovation
 - International Directors Summit 2022: The B Factor - [Bold + Brave] Boards
 - Navigating ESG Data Into Decisions
- ICLIF
 - Corporate Governance & Remuneration Practices For The ESG World
 - Crisis Management & Negotiation
 - Remaking Corporate Governance for an ESG World
 - Understanding the Cybersecurity Landscape
- IERP
 - Qualified Risk Director (QRD) Programme Series: Board Risk Oversight Best Practices: A Strategic Approach
 - Qualified Risk Director (QRD) Programme Series: The Directors Guide to Driving Corporate Culture and ERM
 - Stopping Scandals Before They Happen (Risk Culture Tone from The Top)
- Institute of Internal Auditors Malaysia (IIAM) & Malaysian Institute of Corporate Governance (MICG)
 - Governance in Audit Conference 2022, Auditing in this New Governance Era
- KPMG Malaysia
 - Human Rights Risk Management for Malaysian Companies
 - Navigating through the evolution of Corporate Governance with the introduction of Tax Corporate Governance Framework (TCGF)
 - Tax and Business Summit
 - Working with Multi-Central Bank Digital Currencies: International and Cross-Border Settlements

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2023 (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

A. Board (cont'd)

Directors' Training (cont'd)

During the financial year ended 30 June 2023, the Directors of the Company, collectively or on their own, attended various training programmes, seminars, briefings and/or workshops including (cont'd):

- Malaysian Institute of Accountants (MIA)
 - MIA International Accountants Conference 2023 - Future Fit Profession : Charting a Better Tomorrow
- Malaysian Institute of Corporate Governance (MICG)
 - Bribery and Corruption: Fortifying a 'China-Wall' to thwart corruption prosecution: "reasonable & proportionate" approach for adequacy & efficiency
 - The Audit Committee: Unpacking the Roles of the Committee & Honing its Effectiveness in Discharging its Responsibilities Holistically
- Mesiniaga
 - Anti-Bribery and Corruption Education by Jayantha Kumar Sen Gupta, Head of Community Education Division, MACC Putrajaya
 - PwC and Bursa Malaysia – Updates on ESG (PWC) and FTSE4Good Bursa Malaysia (Bursa Malaysia) for Board Members
- PIDM-FIDE Forum
 - Special briefing & dialogue session to engage with the CEO of PIDM on recovery & resolution planning, and revisions to PIDM's differential premium systems framework
- PwC Malaysia
 - Journey to e-Invoicing
- SIDC
 - Business Foresight Forum 2022: Scaling Up Innovations Towards Future Sustainable Business
- Singapore Institute of Directors
 - Listed Entity Director Programme (LED): Environmental, Social and Governance Essentials (Core)
- SWIFT
 - Sibos 2022 Conference: Progressive Finance For A Changing World

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2023 (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

B. Board Committees

Board Committees have been established by the Board to assist in the discharge of its duties.

(a) GBAC under HLAH

The GBAC was established under HLAH effective from 13 December 2017, subsequent to the approval by BNM on 28 September 2017 for the centralisation of the Audit Committees of HLAH, HLA and HLMT at HLAH, being the financial holding company. The Board Audit and Risk Management Committee ("BARMC") of HLA was disbanded on 13 December 2017 with the establishment of the GBAC and GBRMC under HLAH.

The financial reporting and internal control system of the Company is overseen by the GBAC, which comprises the following members:

Ms Lim Tau Kien

(Chairperson of GBAC and Independent Non-Executive Director of HLAH)

YBhg Dato' Siow Kim Lun @ Siow Kim Lin

(Chairman and Independent Non-Executive Director of HLAH)

Ms Shalet Marian

(Independent Non-Executive Director of HLA)

Mr Martin Giles Manen

(Chairman and Independent Non-Executive Director of HLMT)

Mr Sim Hong Kee

(Independent Non-Executive Director of HLA)

YBhg Dato' Bakarudin bin Ishak

(Independent Non-Executive Director of HLMT)

Secretary

The Secretary(ies) to the GBAC is the Company Secretary(ies) of the Company.

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2023 (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

B. Board Committees (cont'd)

(a) GBAC under HLAH (cont'd)

Group Governance

- Noted that :
 - a) HLFG as an apex entity has overall responsibility for ensuring the establishment and operation of a clear governance structure within its group of companies ("HLFG Group").
 - b) HLFG Board's responsibility is to promote the adoption of sound corporate governance principles throughout the HLFG Group.
 - c) HLFG's audit, risk and compliance functions may propose objectives, strategies, plans, governance framework and policies for adoption and implementation HLFG Group-wide.
 - d) The respective subsidiaries' board of directors and Senior Management must validate that the objectives, strategies, plans, governance framework and policies set at HLFG level are fully consistent with the regulatory obligations and the prudential management of the subsidiary and ensure that entity specific risks are adequately addressed in the implementation of HLFG Group-wide policies.
- The GBAC shall validate that the objectives, strategies, plans, governance framework and policies set at HLFG level are fully consistent with the regulatory obligations and the prudential management of the subsidiary and to check that the entity specific risks are adequately addressed in the implementation of HLFG Group-wide policies.
- HLAH, as the financial holding company of the Insurance and Takaful entities of the HLFG Group ("Insurance Group") shall align the responsibilities as set out above for the Insurance Group.

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2023 (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

B. Board Committees (cont'd)

(a) GBAC under HLAH (cont'd)

Terms of Reference

External Audit

- To make recommendations to the Board of HLAH and its subsidiaries on the appointment, removal and remuneration of the external auditor, where applicable.
- To review the terms of engagement and the audit plan prior to engaging the external auditor and/or re-appointment of the external auditor.
- To monitor and assess the independence of the external auditor, including the approval of non-audit services by the external auditor.
- To review the assistance given by the officers of HLAH and its subsidiaries to the external auditor, where applicable.
- To maintain regular, timely, open and honest communication with the external auditor, and requiring the external auditor to report to the GBAC on significant matters.
- To review the report of the external auditor, including any significant matters, and to ensure that management has taken the necessary corrective actions in a timely manner to address the external audit findings and recommendations.
- To review third-party opinions on the design and effectiveness of HLAH and its subsidiaries' internal control framework, where applicable.

Financial Reporting

- To review the accuracy and adequacy of the Chairman's Statement in the directors' report and corporate governance disclosures of HLAH and its subsidiaries, where applicable.
- To review the interim financial reports and annual financial statements of HLAH and its subsidiaries before submission to the Board of the Company and its subsidiaries where applicable, focusing particularly on changes in accounting policies and practices, significant adjustments arising from the audit, the going concern assumptions, and compliance with accounting standards and other legal requirements.
- To note the update on HLAH and its subsidiaries tax affairs, management of tax compliance risk and tax matters that may have a material impact to HLAH and its subsidiaries.

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2023 (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

B. Board Committees (cont'd)

(a) GBAC under HLAH (cont'd)

Terms of Reference (cont'd)

Related Party/Connected Party Transactions

- To review and update the Board of HLAH and its subsidiaries on any related party transactions that may arise within the Group, where applicable.
- To monitor compliance with the Board of HLAH and its subsidiaries' Conflict of Interest Policies, where applicable.

Internal Audit

- To review and approve the adequacy of the internal audit scope, procedures, frequency and plan, and assess the performance and effectiveness of the internal audit function.
- To review the adequacy and effectiveness of internal controls and risk management processes.
- To review reports and significant findings by internal audit function, including any findings of internal investigations, and to ensure that management has taken the necessary corrective actions in a timely manner to address control weaknesses, non-compliance with laws, regulatory requirements, policies and other problems identified by the internal audit and other control functions.
- To review reports and findings issued by regulatory authorities, and to check that management has taken the necessary corrective actions in a timely manner to address control weaknesses, non-compliance with laws, regulatory requirements, policies and other problems identified by the regulatory authorities.
- To support the Board of HLAH and its subsidiaries in meeting the expectations on internal audit management as set out in BNM's "Guidelines on Internal Audit Function of Licensed Institutions".
- To decide on the appointment, remuneration, appraisal, transfer and dismissal of the Head of Internal Audit, and to provide oversight on the adequacy of resources and remuneration of the internal auditors.

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2023 (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

B. Board Committees (cont'd)

(a) GBAC under HLAH (cont'd)

Terms of Reference (cont'd)

Internal Audit (cont'd)

- To engage privately with the Head of Internal Audit on a regular basis (and in any case at least once annually) to provide the opportunity for the Head of Internal Audit to discuss issues faced by the internal audit function.
- To review the Audit Charter of HLAH and its subsidiaries and recommend for respective Board's approval.
- To review any significant disagreement between the Head of Internal Audit and any member(s) of the Senior Management team where such disagreement may have adverse impact on the audit process or findings, and to recommend resolutions of such disagreement if they remain unresolved within a reasonable period of time.
- To establish an appropriate mechanism to address and manage situations where there is a threat to the objectivity of internal audit.
- To satisfy itself that the internal audit function is effective by establishing a mechanism to assess its performance and effectiveness.
- To ensure that the terms and scope of the engagement, the working arrangements with the internal auditors and reporting requirements are clearly established when engaging external experts, where the internal audit function lacks the expertise needed to perform the audit of specialized areas.
- Other audit functions as may be agreed to by the GBAC and the Board of HLAH and its subsidiaries.

Whistleblowing

- In relation to HLAH and its subsidiaries' Whistleblowing Policy and Procedures:
 - a) oversee the implementation and effectiveness of HLAH and its subsidiaries' Whistleblowing Policy and Procedures; and
 - b) exercise its powers and carry out its responsibilities as set out under HLAH and its subsidiaries' Whistleblowing Policy and Procedures.

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2023 (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

B. Board Committees (cont'd)

(a) GBAC under HLAH (cont'd)

Authority

The GBAC is authorised by the Board of HLAH and its subsidiaries to:

- review any activity of the Group within its TOR;
- seek any information it requires from any Director or member of Senior Management, and all employees are directed to co-operate with any request made by the GBAC, including but not limited to providing the GBAC with sufficient support and resources required to investigate any matter within the mandates of the GBAC; and
- obtain independent legal or other professional advice if it considers necessary.

The Board remains fully accountable for any authority delegated to the GBAC.

Meetings

The GBAC meets at least six (6) times a year and additional meetings may be called at any time as and when necessary. All meetings to review the quarterly reports and annual financial statements are held prior to such financial updates and annual financial statements being presented to the Board of HLAH and its subsidiaries for approval.

The GMD/CEO, CEO, Chief Financial Officer, Chief Risk Officer, Chief Internal Auditor, Chief Compliance Officer, Head of Internal Audit, other Senior Management, employees and external auditors may be invited to attend the GBAC meetings, whenever required.

At least twice a year, the GBAC will have separate sessions with the external auditors without the presence of management.

Issues raised, discussions, deliberations, decisions and conclusions made at the GBAC meetings are recorded in the minutes of the GBAC meetings. A GBAC member who has, directly or indirectly, an interest in a material transaction or material arrangement shall not be present at the GBAC meeting where the material transaction or material arrangement is being deliberated by the GBAC.

Majority with at least one representative from each of the BNM regulated entities in the HLAH Group in Malaysia, who shall be independent and non-executive, shall constitute a quorum.

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2023 (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

B. Board Committees (cont'd)

(a) GBAC under HLAH (cont'd)

Meetings (cont'd)

After each GBAC meeting, the GBAC shall report and update the Board of each of the BNM regulated entities in the HLAH Group in Malaysia on significant issues and concerns discussed during the GBAC meetings and where appropriate, make the necessary recommendations to the Board of each of the BNM regulated entities in the HLAH Group in Malaysia.

Revision of the TOR

Any revision or amendment to the TOR, as endorsed by the GBAC, shall first be presented to the Board of each of the BNM regulated entities in the HLAH Group in Malaysia for approval. Upon the Boards' approval, the said revision or amendment shall form part of this TOR which shall be considered duly revised or amended.

Activities

The GBAC carried out its duties in accordance with its TOR.

During the financial year ended 30 June 2023, seven (7) GBAC meetings were held and the attendance of the members was as follows:

<u>Members</u>	<u>Attendance</u>
Ms Lim Tau Kien	7/7
YBhg Dato' Siow Kim Lun @ Siow Kim Lin	7/7
Ms Shalet Marian	7/7
Mr Martin Giles Manen	7/7
Mr Sim Hong Kee	7/7
YBhg Dato' Bakarudin bin Ishak	7/7

Internal Audit Department ("IAD")

The Company's internal audit function is carried out by the IAD. IAD employs a risk-based assessment approach in auditing the Company's business and operational activities. An annual audit plan is developed and approved by the GBAC. All internal audit reports which incorporate the management's responses were tabled for discussion at the GBAC meetings.

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2023 (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

B. Board Committees (cont'd)

(a) GBAC under HLAH (cont'd)

Internal Audit Department ("IAD") (cont'd)

During the financial year ended 30 June 2023, IAD carried out its duties encompassed amongst others, investment-linked transactions review, product set up review, business continuity management, replacement of policy, sustainability reporting, training for intermediaries, e-payment reporting, statistical reporting, outsourcing, personal data protection, information systems and cybersecurity management, branches and regulatory compliance audit such as anti-money laundering. These audits are performed in line with BNM Guidelines on Internal Audit Function.

The cost incurred for the internal audit function in respect of the current financial year was RM1,034,000 (2022: RM797,000).

(b) GBRMC under HLAH

The GBRMC was established under HLAH effective from 13 December 2017, subsequent to the approval by BNM on 28 September 2017 for the centralisation of the Risk Management Committees of HLAH, HLA and HLMT at HLAH, being the financial holding company. The BARMC of HLA was disbanded on 13 December 2017 with the establishment of the GBAC and GBRMC under HLAH.

The risk management and compliance functions of the Company is overseen by the GBRMC, which comprises the following members:

Mr Sim Hong Kee

(Chairman of GBRMC and Independent Non-Executive Director of HLA)

Ms Koid Swee Lian

(Independent Non-Executive Director of HLA and HLAH)

YBhg Dato' Siow Kim Lun @ Siow Kim Lin

(Chairman and Independent Non-Executive Director of HLAH)

Encik Zulkiflee bin Hashim

(Independent Non-Executive Director of HLMT)

YBhg Dato' Nicholas John Lough @ Sharif Lough bin Abdullah

(Independent Non-Executive Director of HLMT)

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2023 (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

B. Board Committees (cont'd)

(b) GBRMC under HLAH (cont'd)

Secretary

The secretary to the GBRMC meetings is rotated among the Chief Risk Officer (“CRO”) and Chief Compliance Officer (“CCO”) of HLA and HLMT.

Group Governance

- 1a) HLFG as an apex entity has overall responsibility for ensuring the establishment and operation of a clear governance structure within its group of companies (“HLFG Group”).
 - 1b) HLFG Board’s responsibility is to promote the adoption of sound corporate governance principles throughout HLFG Group.
 - 1c) HLFG’s risk and compliance functions may propose objectives, strategies, plans, governance framework and policies for adoption and implementation throughout HLFG Group.
 - 1d) The respective subsidiary’s Board and Senior Management must validate that the objectives, strategies, plans, governance framework and policies set at HLFG level are fully consistent with the regulatory obligations and the prudential management of the subsidiary and ensure that entity specific risks are adequately addressed in the implementation of HLFG Group-wide policies.
2. HLAH, as the financial holding company of the Insurance and Takaful entities of the HLFG Group shall align the responsibilities set out in item B(b)(a) to B(b)(d) above for the following subsidiaries:
- a) HLA
 - b) HLMT
 - c) Hong Leong Insurance (Asia) Limited
 - d) HL Assurance Pte. Ltd.
3. The GBRMC shall validate that the objectives, strategies, plans, governance framework and policies set at HLFG level are fully consistent with the regulatory obligations and the prudential management of HLAH and its subsidiaries and to check that the entity specific risks are adequately addressed in the implementation of Group-wide policies.

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2023 (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

B. Board Committees (cont'd)

(b) GBRMC under HLAH (cont'd)

Terms of Reference

Risk Management

1. The GBRMC shall review the management's:
 - a) activities in managing principal risks such as (but are not limited to) capital adequacy, credit risk, market risk, liquidity risk, operational risk, compliance risk, Shariah compliance risk (applicable to HLMT only), insurance risk as well as environmental, social and governance risk;
 - b) reports to the Boards of HLAH and its subsidiaries on measures taken to:
 - identify and examine principal risks faced by HLAH and its subsidiaries; and
 - implement appropriate systems and internal controls to manage these risks;
 - c) major risk management strategies, policies and risk tolerance, and where appropriate endorse and recommend the same for the approval of the respective Boards of HLAH and its subsidiaries;
 - d) overall framework on the Internal Capital Adequacy Assessment Process ("ICAAP"), including management's stress testing programme, annual risk appetite, Individual Target Capital Level ("ITCL") and Capital Management Plan, and where appropriate endorse and recommend the same for the approval of the respective Boards of HLAH and its subsidiaries;
 - e) development and effective implementation of the ICAAP;
 - f) periodic reports on risk appetite, risk exposure, risk portfolio composition and risk management activities;
 - g) internal controls and risk management process to ensure their adequacy and effectiveness;
 - h) risk management policies and frameworks in identifying, measuring, monitoring and controlling risk to ensure their adequacy and the extent to which these are operating effectively; and
 - i) implementation of risk management as set out in Policy Documents on Risk Governance, Approach to Regulating and Supervising Financial Groups, Corporate Governance, and in respect of HLMT, Shariah Governance.

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CORPORATE GOVERNANCE (CONT'D)

B. Board Committees (cont'd)

(b) GBRMC under HLAH (cont'd)

Terms of Reference (cont'd)

Risk Management (cont'd)

2. The GBRMC shall:
 - a) review risk management function's infrastructure, resources and systems and to ensure that the staff responsible for implementing risk management systems perform those duties independently of HLAH and its subsidiaries' risk-taking activities;
 - b) receive and review reports from pertinent management committees;
 - c) review and advise on the appointment, remuneration, removal and redeployment of the CRO of HLA and HLMT;
 - d) engage privately with each CRO on a regular basis (and in any case at least once annually) to provide the opportunity for the CRO to discuss issues faced by the risk management function; and
 - e) undertake such other risk management functions as may be agreed to by the GBRMC and the respective Boards of HLAH and its subsidiaries.

Compliance

1. The GBRMC shall assist the respective Boards of HLAH and its subsidiaries in the oversight of the management of their compliance risk by:
 - a) reviewing compliance policies and overseeing the implementation of the same;
 - b) reviewing the establishment of the compliance function and the position of the CCOs of HLA and HLMT to ensure the compliance function and CCOs are provided with appropriate standing, authority and independence;
 - c) discussing and deliberating regularly the compliance issues and oversee that such issues are resolved effectively and expeditiously;
 - d) reviewing annually the effectiveness overall management of compliance risk, having due regard to the assessments of their respective senior managements, as well as interactions with the CCOs; and
 - e) updating the respective Boards of HLAH and its subsidiaries on all significant compliance matters, including providing its views on (a) to (d) above.

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CORPORATE GOVERNANCE (CONT'D)

B. Board Committees (cont'd)

(b) GBRMC under HLAH (cont'd)

Terms of Reference (cont'd)

Compliance (cont'd)

2. In relation to the role of the CCOs, support the respective Boards of HLAH and its subsidiaries in meeting the expectations on compliance management as set out in Policy Document on Compliance by:
 - a) reviewing and advising on the appointment, remuneration, termination and redeployment of the CCOs;
 - b) ensuring that the CCOs have sufficient stature to allow for effective engagement with the GMD/CEO or CEO, as the case may be, and other members of Senior Management;
 - c) engaging privately with each CCO on a regular basis (and in any case at least once annually) to provide the opportunity for the CCO to discuss issues faced by the compliance function; and
 - d) ensuring that the CCOs are supported with sufficient resources, including competent officers, to perform his/her duties effectively.

Authority

The GBRMC is authorised by the Boards of HLAH and its subsidiaries to:

- review their activities within these TOR;
- seek such information as it may require from any Director or member of their Senior Managements, and all their employees are directed to co-operate with any request made by the GBRMC, including but not limited to provide the GBRMC with sufficient support and resources required to investigate any matter within the mandates of GBRMC; and
- obtain independent legal or other professional advice as it considers necessary.

The Board remains fully accountable for any authority delegated to the GBRMC.

Meetings

The GBRMC shall meet at least six (6) times a year and such additional meetings as may be called at any time, as and when necessary.

The GMD/CEO, CEO, Chief Financial Officer, CRO, Chief Internal Auditor, CCO, Head of Internal Audit, other Senior Management, employees of HLAH and its subsidiaries may be invited to attend the GBRMC meetings, whenever required.

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2023 (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

B. Board Committees (cont'd)

(b) GBRMC under HLAH (cont'd)

Meetings (cont'd)

Issues raised, discussions, deliberations, decisions and conclusions made at the GBRMC meetings are recorded in the minutes of the meetings. A GBRMC member who has, directly or indirectly, an interest in a material transaction or material arrangement shall not be present at the GBRMC meeting where the material transaction or material arrangement is being deliberated.

A majority with at least one independent and non-executive director from each of the BNM regulated entities in the HLAH Group (i.e., HLAH, HLA and HLMT) shall constitute a quorum.

After each GBRMC meeting, the GBRMC shall report and update the Boards of HLAH, HLA and HLMT on significant issues and concerns discussed during the GBRMC meeting and where appropriate, make the necessary recommendations to their respective Boards.

Revision of the TOR

Any revision or amendment to the TOR proposed by the management of the Company, HLA or HLMT, and where appropriate endorsed and recommended by the GBRMC, shall first be presented to their respective Board for approval. Upon the relevant Boards' approval, the said revision or amendment shall form part of these TOR, which shall be considered duly revised or amended.

Activities

The GBRMC carried out its duties in accordance with its TOR.

During the financial year ended 30 June 2023, eight (8) GBRMC meetings were held and the attendance of the members was as follows:

<u>Members</u>	<u>Attendance</u>
Mr Sim Hong Kee	8/8
Ms Koid Swee Lian	8/8
YBhg Dato' Siow Kim Lun @ Siow Kim Lin	8/8
Encik Zulkiflee bin Hashim	8/8
YBhg Dato' Nicholas John Lough @ Sharif Lough bin Abdullah	8/8

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CORPORATE GOVERNANCE (CONT'D)

B. Board Committees (cont'd)

(c) GBITC under HLFG

Constitution

The GBITC was established to support the Boards of HLFG, Hong Leong Investment Bank Berhad (“HLIB”), HLA and HLMT, in discharging the following responsibilities:

- a) Oversee technology and cybersecurity related matters.
- b) Ensure that risks assessments undertaken in relation to material technology applications are robust and comprehensive.
- c) Ensure that management meets the expectations on technology and cyber security risk management as set out in BNM’s policy document on Risk Management in Technology.
- d) Facilitate discussions amongst entities to rationalise practices and policies, and to seek consistent practices across entities.

For the purpose of this TOR:

- ‘Boards’ means the Boards of (i) HLFG; (ii) HLIB; (iii) HLA; and (iv) HLMT.
- ‘Companies’ and ‘Company’ means (i) HLFG; (ii) HLIB; (iii) HLA; and (iv) HLMT.
- ‘BARMC’ means Board Audit and Risk Management Committee.
- ‘GBRMC’ means Group Board Risk Management Committee.

The GBITC comprises the following members:

Ms Chong Chye Neo

(GBITC Chairman and Independent Non-Executive Director of HLFG)

YM Raja Noorma binti Raja Othman

(Independent Non-Executive Director of HLFG and HLIB)

YBhg Dato’ Nicholas John Lough @ Sharif Lough bin Abdullah

(Independent Non-Executive Director of HLMT)

YBhg Dato’ Ng Wan Peng

(Independent Non-Executive Director of HLA)

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(Incorporated in Malaysia)

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2023 (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

B. Board Committees (cont'd)

(c) GBITC under HLFGB (cont'd)

Secretary

The Secretariat to the GBITC is the Company Secretary(ies) of HLFGB.

Group Governance

Noted that:

- a) HLFGB as an apex entity has overall responsibility for ensuring the establishment and operation of a clear governance structure within HLFGB Group.
- b) HLFGB Board's responsibility is to promote the adoption of sound corporate governance principles throughout the HLFGB Group.
- c) HLFGB's IT related functions may propose objectives, strategies, plans, governance framework and policies for group-wide adoption and implementation.
- d) The respective subsidiaries' board and senior management must validate that the objectives, strategies, plans, governance framework and policies set at HLFGB level are fully consistent with the regulatory obligations and the prudential management of the subsidiary and ensure that entity specific issues are adequately addressed in the implementation of group-wide policies.

Terms of Reference

- To review management's strategies relating to technology and cyber security and their alignment to the Companies' overall strategy, objectives and risk appetite.
- To ensure that the Companies' technology risk appetite is aligned to Companies' overall risk appetite statement.
- To review the adequacy of management's information technology and cyber security strategic plans over a three year period and periodically review these plans at least once every year.
- To oversee management's implementation of sound and robust technology-related frameworks, encompassing technology risk management and cyber resilience.
- To ensure that the Companies' technology-related frameworks encompassing technology risk management and cyber resilience, remains relevant on an ongoing basis.

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2023 (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

B. Board Committees (cont'd)

(c) GBITC under HLFM (cont'd)

Terms of Reference (cont'd)

- To review the Companies' technology-related frameworks encompassing technology risk management and cyber resilience at least once every three years, for the Boards' affirmation.
- To review management's reporting to the Boards on measures taken to:
 - a) Identify and examine technology risk (including cyber risk) faced by the Companies;
 - b) Ensure strategies are in place to safeguard the Companies against current and emerging technology and/or cyber risks;
 - c) Assess effectiveness of controls put in place to manage these risks; and
 - d) Conduct appropriate and timely closure of IT audit findings.
- To review and ensure that management provides sufficient detailed information on key technology risk and critical technology operations to facilitate strategic decision-making. This includes reporting enterprise key risk indicators on the IT and cyber health posture.
- To review and report to the Boards on emerging global technology trends and their potential application within the Companies, to either enhance the business operations, safeguard existing businesses or improve overall technology security.
- To review post implementation reports of key technology projects to ensure that results are aligned to the risk posture stipulated in the initial project request.
- To review and report to the Boards on the strategic benchmarking of technology performance against external peer groups from time to time.
- To review the effectiveness of disaster recovery plans and disaster recovery testing to ensure high system resilience of technology systems, datacentres etc.
- To review and ensure adequacy of cyber security investments and that its associated roadmap for implementation is acceptable.
- Other technology and cyber security related matters as may be agreed by the Boards.

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CORPORATE GOVERNANCE (CONT'D)

B. Board Committees (cont'd)

(c) GBITC under HLFG (cont'd)

Authority

GBITC is authorised by the Boards to review any technology-related activities of the Companies within its TOR. It is authorised to seek any technology-related information it requires from any Director or member of management and all employees are directed to co-operate with any request made by the GBITC.

The GBITC is authorised by the Boards to obtain independent legal or other professional advice if it considers it necessary to perform the duties delegated by the Boards to this committee.

Meetings

The GBITC meets at least four (4) times a year and additional meetings may be called at any time as and when necessary.

The President and CEO, GMD/CEO, Chief Financial Officer, CRO, Chief Internal Auditor, CCO, Chief Information Security Officer, Head of Group Operations and Technology, Chief IT Officer, other senior management and external auditors of HLFG and its subsidiaries may be invited to attend the GBITC meetings, whenever required.

Issues raised, as well as discussions, deliberations, decisions and conclusions made at the GBITC meetings are recorded in the minutes of the GBITC meetings. A GBITC member who has, directly or indirectly, an interest in a material transaction or material arrangement shall not be present at the GBITC meeting where the material transaction or material arrangement is being deliberated by the GBITC.

Two (2) members of the GBITC shall constitute a quorum.

After each GBITC meeting, the GBITC shall report and update the Boards on significant technology-related issues and concerns discussed during the GBITC meetings and where appropriate, make the necessary recommendations to the Boards for its deliberation and approval.

The minutes of each GBITC meeting shall be tabled to the Board of each Company.

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2023 (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

B. Board Committees (cont'd)

(c) GBITC under HLFG (cont'd)

Revision of the TOR

Any revision or amendment to the TOR, as proposed by the GBITC, shall be presented to the Boards for their approval. Upon the Boards' approval, the said revision or amendment shall form part of this TOR which shall be considered duly revised or amended.

Activities

The GBITC carried out its duties in accordance with its TOR.

During the financial year ended 30 June 2023, five (5) GBITC meetings were held and the attendance of the members was as follows:

<u>Members</u>	<u>Attendance</u>
Ms Chong Chye Neo	5/5
YM Raja Noorma binti Raja Othman	5/5
YBhg Dato' Nicholas John Lough @ Sharif Lough bin Abdullah	5/5
YBhg Dato' Ng Wan Peng	5/5

(d) NC

The composition of the NC is as follows:

Mr Sim Hong Kee

(NC Chairman and Independent Non-Executive Director)

Mr Tan Kong Khoon

(Non-Independent Executive Director)

Ms Shalet Marian

(Independent Non-Executive Director)

Secretary

The Secretary(ies) of the Company or such other person as nominated by the Board will be the Secretary(ies) of the NC.

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2023 (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

B. Board Committees (cont'd)

(d) NC (cont'd)

Terms of Reference

The NC's responsibilities are as follows:

- (i) Support the Board in carrying out its functions in the following matters concerning the Board, Senior Management and Company Secretary(ies):
 - (a) appointments and removals;
 - (b) composition;
 - (c) performance evaluation and development; and
 - (d) fit and proper assessments.
- (ii) Recommend to the Board the minimum criteria and skill sets for appointments to the Board, Board Committees and for the position of CEO.
- (iii) Review and recommend to the Board, all Board and Board Committees appointments, re-appointments and removals including that of the CEO.
- (iv) Review annually the overall composition of the Board in terms of the appropriate size and skills, the balance between executive directors, non-executive and independent directors, and mix of skills and other core competencies required.
- (v) Assess annually the performance and effectiveness of the Board, Board Committees and each individual director.
- (vi) Oversee the appointment and management of succession planning and performance evaluation of key Senior Management officers and recommend their removal if they are found ineffective, errant and negligent in discharging their responsibilities.
- (vii) Ensure that the Board receives an appropriate continuous training programme.

During the financial year ended 30 June 2023, five (5) NC meetings were held and the attendance of the members was as follows:

<u>Members</u>	<u>Attendance</u>
Mr Sim Hong Kee	5/5
Mr Tan Kong Khoon	5/5
Ms Shalet Marian	5/5

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2023 (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

B. Board Committees (cont'd)

(e) RC

The composition of the RC is as follows:

Ms Koid Swee Lian

(RC Chairperson and Independent Non-Executive Director)

YBhg Tan Sri Quek Leng Chan

(Non-Independent Non-Executive Director)

Mr Sim Hong Kee

(Independent Non-Executive Director)

Secretary

The Secretary(ies) of the Company or such other person as nominated by the Board will be the Secretary(ies) of the RC.

Terms of Reference

The RC's responsibilities are as follows:

- (i) Recommend to the Board the framework and policies governing the remuneration of the following:
 - Directors;
 - CEO;
 - Senior Management officers; and
 - Other material risk takers.
- (ii) Review and recommend to the Board for approval the specific remuneration packages of executive directors and the CEO.
- (iii) Review and recommend to the Board for approval the remuneration of Senior Management officers and other material risk takers.

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2023 (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

B. Board Committees (cont'd)

(e) RC (cont'd)

During the financial year ended 30 June 2023, one (1) RC meeting was held and the attendance of members was as follows:

<u>Members</u>	<u>Attendance</u>
Ms Koid Swee Lian	1/1
YBhg Tan Sri Quek Leng Chan	1/1
Mr Sim Hong Kee	1/1

The Group's remuneration scheme for Executive Directors is linked to performance, service seniority, experience and scope of responsibility and is periodically benchmarked to market/industry surveys conducted by human resource consultants. Performance is measured against profits and targets set in the Group's annual plan and budget.

The level of remuneration of Non-Executive Directors reflects the scope of responsibilities and commitment undertaken by them.

The fees of Directors are recommended and endorsed by the Board for approval by the shareholders of the Company at its Annual General Meeting.

Remuneration Policy

HLA's remuneration strategy supports and promotes a high performance culture to deliver HLA's vision to be a highly digital and innovative insurer. It also forms a key part of our Employer Value Proposition with the aim to drive the right behaviours, create a workforce of strong values, high integrity, clear sense of responsibility and high ethical standards.

The remuneration framework provides a balanced approach between fixed and variable components that is measured using a robust and rigorous performance management process which incorporates meritocracy in performance, HLA values, key behaviours in accordance to our Code of Conduct and risk and compliance management as part of the key performance indicators for remuneration decisions.

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CORPORATE GOVERNANCE (CONT'D)

B. Board Committees (cont'd)

(e) RC (cont'd)

Remuneration Policy (cont'd)

The remuneration framework also reinforces robust internal governance on performance and remuneration of control functions which are measured and assessed independently from business units/functions they support to avoid any conflict of interests. The framework stipulates that for effective segregation these staff will be appraised principally based on achievement of their control objectives.

The remuneration process includes strict adherence to regulatory requirements and active oversight by the Board where the remuneration of CEO, Senior Management Officers and other material risk takers are reviewed and approved by the Remuneration Committee and Board annually. HLA maintains and regularly reviews a list of officers who fall within the definition of "other material risk takers".

Key components of remuneration structure

The overall total compensation for HLA generally includes base salary, fixed allowances, performance-based variable pay and employee benefits.

- **Fixed Pay (Base Salary and Fixed Allowances)**
Fixed pay is determined based on competency level, skills, experience, performance and market competitive levels; ensuring its competitiveness vis-à-vis comparable institutions for attraction and retention purposes.
- **Variable pay (Cash Bonus, Deferred Cash and Incentive)**
Variable pay is declared based on overall Company's performance, line of business and individual performance. It focuses on the achievement of key objectives which are aligned to value creation for our shareholders and stakeholders. Payout is aligned to time horizon of risk to avoid excessive risk taking and provide for malus, clawback and deferral arrangements.
- **Employee Benefits**
Employee benefits are used to foster employees' sense of being valued and sense of well-being, delivering cost-effective programmes that are of value to employees.

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2023 (CONT'D)**CORPORATE GOVERNANCE (CONT'D)****B. Board Committees (cont'd)****(e) RC (cont'd)****Remuneration Policy (cont'd)****Key components of remuneration structure (cont'd)**

The remuneration for Senior Officers and Material Risk Takers for the current financial year is shown in the table below:

Total value of remuneration awards for the financial year	GMD/CEO		Senior Management and other Material Risk Takers	
	Unrestricted (RM)	Deferred (RM)	Unrestricted (RM)	Deferred (RM)
Fixed Remuneration				
■ Cash-based	1,668,000	-	10,424,167	-
■ Shares and share-linked instruments	-	-	-	-
■ Other	-	-	-	-
Variable Remuneration				
■ Cash-based	2,498,289	-	3,722,464	-
■ Shares and share-linked instruments	-	-	-	-
■ Other	-	-	-	-

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2023 (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

C. Independence

The Company has in place a policy in relation to the tenure for independent Directors of the Company ("Tenure Policy") under the Fit and Proper Policy of the Company. Pursuant to the Tenure Policy, the tenure of an independent Director shall not exceed a cumulative term of 9 years from the date of his or her first appointment in the Company. Upon completion of the 9 years, an independent Director shall retire on the expiry date of his or her term of office approved by BNM.

The Board seeks to strike an appropriate balance between tenure of service, continuity of experience and refreshment of the Board. Although a longer tenure of directorship may be perceived as relevant to the determination of a Director's independence, the Board recognises that an individual's independence should not be determined solely based on tenure of service. Further, the continued tenure of directorship brings considerable stability to the Board, and the Company benefits from Directors who have, over time, gained valuable insight into the Company, its market and the industry.

The independent Directors have declared their independence, and the NC and the Board have determined, at the annual assessment carried out, that the independent Directors, have continued to bring objective judgment to the Board deliberations and decision making. The tenure of all the independent directors on the Board does not exceed 9 years.

D. Commitment

The Directors are aware of their responsibilities and devote sufficient time to carry out such responsibilities. Board meetings are scheduled a year ahead in order to enable full attendance at Board meetings. Additional meetings may be convened on an ad-hoc basis as and when necessary. Where appropriate, decisions are also taken by way of Directors' Circular Resolutions. Directors are required to attend at least 75% of Board meetings held in each financial year pursuant to the BNM CG Policy.

All Board members are supplied with information in a timely manner. The Company has moved towards electronic Board reports. Board reports are circulated electronically prior to Board and Board Committee meetings and the reports provide, amongst others, financial and corporate information, significant operational, financial and corporate issues, updates on the performance of the Company and management's proposals which require the approval of the Board.

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2023 (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

D. Commitment (cont'd)

All Directors have access to the advice and services of qualified and competent Company Secretaries to facilitate the discharge of their duties effectively. The Company Secretaries are qualified to act under Section 235 of the Companies Act 2016. They support the effective functioning of the Board, provide advice and guidance to the Board on policies and procedures, relevant rules, regulations and laws in relation to corporate secretarial and governance functions and facilitate effective information flow amongst the Board, Board Committees and senior management. All Directors also have access to the advice and services of the internal auditors and in addition, to independent professional advice, where necessary, at the Company's expense, in consultation with the Chairman or the Chief Executive Officer of the Company.

At Board meetings, active deliberations of issues by Board members are encouraged and such deliberations, decisions and conclusions are recorded by the Company Secretaries accordingly. A Director who has, directly or indirectly, an interest in a material transaction or material arrangement shall not be present at the Board meeting where the material transaction or material arrangement is being deliberated by the Board.

E. Financial Reporting

The Board is responsible for ensuring the proper maintenance of accounting records of the Company. Reports on the financial condition and performance of the Company are reviewed at Board meetings.

F. Internal Control Framework

The Board has overall oversight responsibility to ensure that the Company maintains an adequate system of internal controls and is equipped with effective operations and risk management, as well as procedures to ensure compliance with laws, regulations, internal guidelines and requirements to safeguard assets of the Company and stakeholders' interests.

The system of internal controls provides reasonable but not absolute assurance that the Company would not be adversely affected by any event that could be reasonably foreseen as it strives to achieve its business objectives. It is noted that no system of internal controls can provide absolute assurance in this regard, or absolute assurance against the occurrence of material errors, poor judgment in decision-making, human error, losses, fraud or other irregularities.

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2023 (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

F. Internal Control Framework (cont'd)

The internal control framework comprises among others, the infrastructure in the form of risk oversight committees at the Board and Senior Management levels; policies and procedures; self-assessment process for departments to assess and manage the adequacy and effectiveness of internal controls and the level of compliance with applicable rules and regulations; and a monitoring and reporting process.

(a) Infrastructure

While the Board is ultimately responsible for the management of risks within the Company, several oversight committees have been established over the years to facilitate in depth review of the risks associated with specific aspects of the business such as NC, RC, GBAC, GBRMC, Executive Committee ("EXCO"), Investment Committee, Information Technology Steering Committee, Strategic Product Committee, Underwriting, Policy Administration and Claims Committee, Asset Liability Committee, etc. The duties and scope of work of these committees are documented in their respective TOR.

The Company has a well-defined organisational structure with clearly defined authorities, accountability and segregation of duties. The Company operates its respective departments within the policies, supplemented by operating procedures developed by the departments.

(b) Policies and Procedures

The Company has established risk management policies that set forth the means by which the Company shall evaluate and manage the risks inherent in the business. The policies outline the common risk management processes across key risks types within the Company.

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CORPORATE GOVERNANCE (CONT'D)

F. Internal Controls Framework (cont'd)

(b) Policies and Procedures (cont'd)

A number of policies and procedures have also been put in place to guide and facilitate consistency in application across the Board. These cover key areas of risk such as:

- Whistleblowing Policy
- Anti-Corruption System Policy
- Donation Policy
- Code of Conduct and Ethics
- Anti-Money Laundering, Countering Financing of Terrorism and Targeted Financial Sanctions Policy
- Internal Capital Adequacy Assessment Process Policy
- Investment Policy
- Management of Participating Life Business Policy
- New Product Approval Policy and Framework
- Management of Customer Information Policy
- Risk Management Policy
- Compliance Policy
- Audit Charter

Policies and procedures are reviewed regularly to ensure continued relevance and to capture the latest regulatory, statutory and Group requirements. Policies are endorsed by EXCO and GBRMC and subsequently approved by the Board while operating procedures are approved by EXCO, as appropriate, to formalise their applications within the Company.

(c) Self-Assessment Process

Risk Self-Assessment and Compliance Self-Assessment tools are established in the Company. The results of the self-assessment are reported to EXCO and GBRMC and subsequently to the Board via GBRMC's highlights.

(d) Monitoring and Reporting

The Company has identified the key risks that have significant impact on its capital adequacy risk, solvency risk, strategic risk, credit risk, market risk, interest rate risk, liquidity risk, technology risk, insurance risk, operational risk and compliance risk. Each department is responsible for managing and monitoring these risks through appropriate limits, control procedures and oversight.

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2023 (CONT'D)

CORPORATE GOVERNANCE (CONT'D)

F. Internal Controls Framework (cont'd)

(d) Monitoring and Reporting (cont'd)

An Enterprise Risk Dashboard that provides holistic view of the Company's risk profile is reported to EXCO and GBRMC and subsequently to the Board via GBRMC's highlights on a regular basis.

The Company has a process to collate statistics of Company-wide Key Risk Indicators and operational loss events reporting (via ORION) for the reporting to EXCO and GBRMC and subsequently to the Board via GBRMC's highlights on a regular basis.

G. Corporate Independence

The Company has complied with BNM's Guidelines on Related Party Transactions (BNM/RH/GL-018-6) in respect of all its related party undertakings. All necessary disclosures have been made to the Board regularly and where required, prior Board approval has been obtained. All material related party transactions are disclosed in Note 28 to the financial statements.

H. Management Accountability

The Company operates in an organisational structure and environment which are constantly being reviewed and enhanced to ensure that it remains appropriate for the operating environment. Human resource procedures of the Company provide for the setting of goals and training of each employee. The Company conducts formal appraisals for each employee on an annual basis.

The Company has an office of Corporate Communications to guide its communication policy.

I. Public Accountability

As a custodian of public funds, the Company's dealings with the public are always conducted fairly, honestly and professionally. All staff of the Company are required to comply with the Code of Ethics and Conduct.

J. Relationship with Auditors

The external auditors are appointed on the recommendation by the GBAC, which determines the remuneration of the external auditors. The external auditors meet with the GBAC to:

- (i) Present the scope of the audit before the commencement of audit; and
- (ii) Review the results of the financial year as well as the Internal Control recommendations after the conclusion of the audit.

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2023 (CONT'D)**DIRECTORS' INTERESTS**

According to the Register of Directors' Shareholdings kept by the Company under Section 59 of the Companies Act 2016, the Directors holding office at the end of the financial year who had beneficial interests in the ordinary shares and/or preference shares and/or options over ordinary shares of the Company and/or its related corporations during the financial year are as follows:

	Directors' direct interests			
	Number of ordinary shares/preference shares/ordinary shares issued or to be issued or acquired arising from the exercise of options*/conversion of redeemable convertible unsecured loan stocks**/nominal value in Ringgit Malaysia of Additional Tier 1 capital securities/perpetual subordinated sukuk wakalah***/nominal value in Ringgit Malaysia of Tier 2 subordinated notes/subordinated sukuk murabahah****			
	As at <u>1/7/2022</u>	<u>Acquired</u>	<u>(Sold/ exercised)</u>	As at <u>30/6/2023</u>
Interests of				
YBhg Tan Sri Quek Leng Chan in:				
Hong Leong Company (Malaysia) Berhad	390,000	-	-	390,000
Hong Leong Financial Group Berhad	5,438,664	-	-	5,438,664

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2023 (CONT'D)**DIRECTORS' INTERESTS (CONT'D)****Directors' direct interests**

Number of ordinary shares/preference shares/ordinary shares issued or to be issued or acquired arising from the exercise of options*/conversion of redeemable convertible unsecured loan stocks/nominal value in Ringgit Malaysia of Additional Tier 1 capital securities/perpetual subordinated sukuk wakalah***/nominal value in Ringgit Malaysia of Tier 2 subordinated notes/subordinated sukuk murabahah****/ordinary shares to be received arising from vesting of share grant*******

	<u>As at 1/7/2022</u>	<u>Acquired</u>	<u>(Sold/ exercised)</u>	<u>As at 30/6/2023</u>
Interests of				
Mr Tan Kong Khoon in:				
Hong Leong Financial Group Berhad	125,123	125,123 ⁽⁵⁾	-	250,246
	250,245 *****	-	(125,123) ⁽⁵⁾	125,122 *****

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2023 (CONT'D)**DIRECTORS' INTERESTS (CONT'D)****Directors' deemed interests**

Number of ordinary shares/preference shares/ordinary shares issued or to be issued or acquired arising from the exercise of options*/conversion of redeemable convertible unsecured loan stocks/nominal value in Ringgit Malaysia of Additional Tier 1 capital securities/perpetual subordinated sukuk wakalah***/nominal value in Ringgit Malaysia of Tier 2 subordinated notes/subordinated sukuk murabahah******

	<u>As at</u> <u>1/7/2022</u>	<u>Acquired</u>	<u>(Sold/</u> <u>exercised)</u>	<u>As at</u> <u>30/6/2023</u>
Interest of				
YBhg Tan Sri Quek Leng Chan in:				
Hong Leong Company (Malaysia) Berhad	7,651,455 ⁽¹⁾	-	-	7,651,455 ⁽¹⁾
Hong Leong Financial Group Berhad	894,714,726 ⁽¹⁾	-	-	894,714,726 ⁽¹⁾
Hong Leong Capital Berhad	173,805,058	-	-	173,805,058
Hong Leong Bank Berhad	1,346,027,209	-	-	1,346,027,209
	800,000,000 ^{***}	-	(400,000,000) ^{***}	400,000,000 ^{***}
	1,500,000,000 ^{****}	100,000,000 ^{****}	(500,000,000) ^{****}	1,100,000,000 ^{****}
Hong Leong MSIG Takaful Berhad	130,000,000	-	-	130,000,000
Hong Leong Assurance Berhad	140,000,000	-	-	140,000,000
Hong Leong Islamic Bank Berhad	400,000,000 ^{***}	400,000,000 ^{***}	(400,000,000) ^{***}	400,000,000 ^{***}
	400,000,000 ^{****}	-	-	400,000,000 ^{****}

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DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2023 (CONT'D)**DIRECTORS' INTERESTS (CONT'D)****Directors' deemed interests**

Number of ordinary shares/preference shares/ordinary shares issued or to be issued or acquired arising from the exercise of options*/conversion of redeemable convertible unsecured loan stocks/nominal value in Ringgit Malaysia of Additional Tier 1 capital securities/perpetual subordinated sukuk wakalah***/nominal value in Ringgit Malaysia of Tier 2 subordinated notes/subordinated sukuk murabahah******

	<u>As at</u> <u>1/7/2022</u>	<u>Acquired</u>	<u>(Sold/</u> <u>exercised)</u>	<u>As at</u> <u>30/6/2023</u>
Interest of				
YBhg Tan Sri Quek Leng Chan in: (cont'd)				
Hong Leong Industries Berhad	242,700,470 ⁽¹⁾	21,000	-	242,721,470 ⁽¹⁾
Hong Leong Yamaha Motor Sdn Bhd	17,352,872	-	-	17,352,872
Malaysian Pacific Industries Berhad	116,205,192	-	(16,667)	116,188,525
Carter Resources Sdn Bhd	5,640,607	-	-	5,640,607
Carsem (M) Sdn Bhd	84,000,000	-	-	84,000,000
	22,400 ⁽²⁾	-	-	22,400 ⁽²⁾
Hume Cement Industries Berhad	353,486,658 ⁽¹⁾	8,040,000 ⁽³⁾	(9,965,000)	352,701,658 ⁽¹⁾
		1,140,000 ⁽¹⁾⁽⁴⁾		352,701,658 ⁽¹⁾
	197,043,175 ^{**} (1)	-	(4,020,000) ^{**}	193,023,175 ^{**} (1)
	1,140,000 ^{*(1)}	-	(1,140,000) ^{*(1)(4)}	-

HONG LEONG ASSURANCE BERHAD

Registration No. 198201014849 (94613-X)

(Incorporated in Malaysia)

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2023 (CONT'D)**DIRECTORS' INTERESTS (CONT'D)**

Directors' deemed interests
Number of ordinary shares/preference shares/ordinary shares issued or to be issued
or acquired arising from the exercise of options*/conversion of redeemable convertible
unsecured loan stocks/nominal value in Ringgit Malaysia of Additional Tier 1**
capital securities/perpetual subordinated sukuk wakalah*/nominal value in**
Ringgit Malaysia of Tier 2 subordinated notes/subordinated sukuk murabahah****

	<u>As at</u> <u>1/7/2022</u>	<u>Acquired</u>	<u>(Sold/</u> <u>exercised)</u>	<u>As at</u> <u>30/6/2023</u>
Interest of				
YBhg Tan Sri Quek Leng Chan in: (cont'd)				
Southern Steel Berhad	417,246,046	-	-	417,246,046
Southern Pipe Industry (Malaysia) Sdn Bhd	124,964,153	560,320	-	125,524,473

Notes:

- (1) Inclusive of interest pursuant to Section 59(11)(c) of the Companies Act 2016 in shares held by family member
- (2) Redeemable Preference Shares/Cumulative Redeemable Preference Shares
- (3) Inclusive of new ordinary shares acquired arising from the conversion of redeemable convertible unsecured loan stocks
- (4) Exercise of share options
- (5) Vesting of grant shares pursuant to the Executive Share Scheme

HONG LEONG ASSURANCE BERHAD

Registration No. 198201014849 (94613-X)

(Incorporated in Malaysia)

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2023 (CONT'D)

DIRECTORS' BENEFITS

Since the end of the previous financial year, none of the Directors of the Company received or became entitled to receive any benefit (other than the benefits shown under Directors' Remuneration in Note 23(b) to the financial statements, included in the aggregate amount of remuneration received or due and receivable by the Directors as shown in the financial statements or as fixed salary of a full-time employee of the Company or of related corporations) by reason of a contract made by the Company or its related corporations with the Director or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest except for YBhg Tan Sri Quek Leng Chan, who may be deemed to derive a benefit by virtue of those transactions, contracts and agreements for the acquisitions and/or disposal of stocks and shares, stocks-in-trade, products, parts, accessories, plants, chattels, fixtures, buildings, land and other properties or any interest in any properties; and/or for the provision of services, including but not limited to project and sales management and any other management and consultancy services; and/or for construction, development, leases, tenancy, licensing, dealership and distributorship; and/or for the provision of treasury functions, advances in the conduct of normal trading, banking, insurance, investment, stockbroking and/or other businesses between the Company or its related corporations and corporations in which YBhg Tan Sri Quek Leng Chan is deemed to have interests.

Neither at the end of the financial year, nor at anytime during the financial year, did there subsist any other arrangements to which the Company is a party, with the object or objects of enabling the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, other than the share options granted pursuant to the Executive Share Scheme.

HOLDING COMPANIES

The immediate, penultimate and ultimate holding companies are HLAH, HLFGL and Hong Leong Company (Malaysia) Berhad respectively, all companies incorporated in Malaysia.

HONG LEONG ASSURANCE BERHAD

Registration No. 198201014849 (94613-X)

(Incorporated in Malaysia)

DIRECTORS' REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2023 (CONT'D)

AUDITORS' REMUNERATION

Auditors' remuneration of the Company is RM2,031,000. Details of auditors' remuneration are set out in Note 23 to the financial statements.

AUDITORS

The auditors, PricewaterhouseCoopers PLT (LLP0014401-LCA & AF 1146), have expressed their willingness to accept re-appointment as auditors.

This report was approved by the Board of Directors on 22 September 2023. Signed on behalf of the Board of Directors.



.....
Tan Kong Khoon



.....
Shalet Marian

Petaling Jaya
22 September 2023

HONG LEONG ASSURANCE BERHAD

Registration No. 198201014849 (94613-X)

(Incorporated in Malaysia)

STATEMENT BY DIRECTORS PURSUANT TO SECTION 251(2) OF THE COMPANIES ACT 2016

We, Tan Kong Khoon and Shalet Marian, two of the Directors of Hong Leong Assurance Berhad, do hereby state that, in the opinion of the Directors, the accompanying financial statements set out on pages 61 to 168 are drawn up so as to give a true and fair view of the financial position of the Company as at 30 June 2023 and financial performance of the Company for the financial year ended 30 June 2023 in accordance with the Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

Signed on behalf of the Board of Directors in accordance with a resolution of the Directors dated 22 September 2023.



Tan Kong Khoon
Director



Shalet Marian
Director

Petaling Jaya
22 September 2023

HONG LEONG ASSURANCE BERHAD

Registration No. 198201014849 (94613-X)

(Incorporated in Malaysia)

STATUTORY DECLARATION PURSUANT TO SECTION 251(1) OF THE COMPANIES ACT 2016

I, Ong Kheng Heng, the officer primarily responsible for the financial management of Hong Leong Assurance Berhad, do solemnly and sincerely declare that, the financial statements set out on pages 61 to 168 are, to the best of my knowledge and belief, correct and I make this solemn declaration conscientiously believing the same to be true, and by virtue of the provisions of the Statutory Declarations Act 1960.

Subscribed and solemnly declared)
by the above named Ong Kheng Heng)
at Petaling Jaya)
in the State of Selangor Darul Ehsan)
this 22 September 2023)



Before me

Commissioner for Oaths



3 Damansara Shopping Mall
3, Jalan SS20/27
47400 Petaling Jaya
Selangor Darul Ehsan



INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF HONG LEONG ASSURANCE BERHAD
(Incorporated in Malaysia)
Registration No. 198201014849 (94613-X)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Our opinion

In our opinion, the financial statements of Hong Leong Assurance Berhad (“the Company”) give a true and fair view of the financial position of the Company as at 30 June 2023, and of its financial performance and its cash flows for the financial year then ended in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia.

What we have audited

We have audited the financial statements of the Company, which comprise the statement of financial position as at 30 June 2023, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the financial year then ended, and notes to the financial statements, including a summary of significant accounting policies, as set out on pages 61 to 168.

Basis for opinion

We conducted our audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing. Our responsibilities under those standards are further described in the “Auditors’ responsibilities for the audit of the financial statements” section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence and other ethical responsibilities

We are independent of the Company in accordance with the By-Laws (on Professional Ethics, Conduct and Practice) of the Malaysian Institute of Accountants (“By-Laws”) and the International Ethics Standards Board for Accountants’ International Code of Ethics for Professional Accountants (including International Independence Standards) (“IESBA Code”), and we have fulfilled our other ethical responsibilities in accordance with the By-Laws and the IESBA Code.

Information other than the financial statements and auditors’ report thereon

The Directors of the Company are responsible for the other information. The other information comprises the Directors’ Report, but does not include the financial statements of the Company and our auditors’ report thereon.



INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF HONG LEONG ASSURANCE BERHAD (CONTINUED)
(Incorporated in Malaysia)
Registration No. 198201014849 (94613-X)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

Our opinion on the financial statements of the Company does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements of the Company, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements of the Company or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the financial statements

The Directors of the Company are responsible for the preparation of the financial statements of the Company that give a true and fair view in accordance with Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act 2016 in Malaysia. The Directors are also responsible for such internal control as the Directors determine is necessary to enable the preparation of financial statements of the Company that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the Company, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements of the Company as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with approved standards on auditing in Malaysia and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF HONG LEONG ASSURANCE BERHAD (CONTINUED)
(Incorporated in Malaysia)
Registration No. 198201014849 (94613-X)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS (CONTINUED)

As part of an audit in accordance with approved standards on auditing in Malaysia and International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- (a) Identify and assess the risks of material misstatement of the financial statements of the Company, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- (b) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- (c) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- (d) Conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements of the Company or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- (e) Evaluate the overall presentation, structure and content of the financial statements of the Company, including the disclosures, and whether the financial statements of the Company represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



INDEPENDENT AUDITORS' REPORT
TO THE MEMBER OF HONG LEONG ASSURANCE BERHAD (CONTINUED)
(Incorporated in Malaysia)
Registration No. 198201014849 (94613-X)

OTHER MATTERS

This report is made solely to the member of the Company, as a body, in accordance with Section 266 of the Companies Act 2016 in Malaysia and for no other purpose. We do not assume responsibility to any other person for the content of this report.

PRICEWATERHOUSECOOPERS PLT
LLP0014401-LCA & AF 1146
Chartered Accountants

Kuala Lumpur
22 September 2023

WONG HUI CHERN
03252/05/2024 J
Chartered Accountant

HONG LEONG ASSURANCE BERHAD

Registration No. 198201014849 (94613-X)

(Incorporated in Malaysia)

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2023

	Note	2023 RM'000	2022 RM'000
Assets			
Property, plant and equipment	3	76,214	79,229
Intangible assets	4	7,331	6,153
Right-of-use assets	5(a)	8,175	7,300
Investment properties	6	471,630	471,610
Financial assets	7	24,285,076	21,725,420
- Fair value through profit or loss financial assets	7(a)	23,556,895	21,399,776
- Amortised cost financial assets	7(b)	728,181	325,644
Derivative assets	8	154	476
Reinsurance assets	13	54,340	27,287
Insurance receivables	9	50,723	59,143
Other receivables	10	96,451	43,690
Cash and cash equivalents		1,204,357	1,596,174
Total assets		26,254,451	24,016,482
Equity, policyholders' fund and liabilities			
Share capital	11	200,000	200,000
Reserves	12	2,421,006	2,167,020
Total equity		2,621,006	2,367,020
Insurance contract liabilities	13	18,230,641	16,601,539
Deferred tax liabilities	14	398,179	281,575
Tax payables		2,311	12,065
Insurance payables	15	4,186,746	3,930,555
Other payables	16	196,599	209,783
Lease liabilities	5(b)	8,788	7,873
Derivative liabilities	8	5,471	1,362
Subordinated notes	17	604,710	604,710
Total policyholders' fund and liabilities		23,633,445	21,649,462
Total equity, policyholders' fund and liabilities		26,254,451	24,016,482

The accompanying notes form an integral part of the financial statements.

HONG LEONG ASSURANCE BERHAD

Registration No. 198201014849 (94613-X)

(Incorporated in Malaysia)

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2023**

		2023	2022
	Note	RM'000	RM'000
Gross earned premiums		3,100,226	3,169,046
Premiums ceded to reinsurers		(160,993)	(133,689)
Net earned premiums		<u>2,939,233</u>	<u>3,035,357</u>
Investment income	18	997,850	900,483
Realised losses	19	(4,016)	(88,407)
Fair value gains/(losses)	20	662,703	(1,621,614)
Fees and commission income	21	23,737	18,858
Other operating income-net	22	50,202	20,542
Other revenue		<u>1,730,476</u>	<u>(770,138)</u>
Gross benefits and claims paid		(2,173,443)	(1,969,248)
Claims ceded to reinsurers		138,691	112,190
Gross change to contract liabilities		(1,541,641)	487,427
Change in contract liabilities ceded to reinsurers		8,068	(34,159)
Net benefits and claims		<u>(3,568,325)</u>	<u>(1,403,790)</u>
Fees and commission expense		(400,511)	(398,886)
Management expenses	23	(217,500)	(200,495)
Other expenses		<u>(618,011)</u>	<u>(599,381)</u>
Finance cost		(22,459)	(22,449)
Surplus before taxation		460,914	239,599
Tax expense attributable to participating fund and unitholders		(79,474)	69,049
Profit before taxation attributable to shareholders		381,440	308,648
Taxation		(176,928)	17,171
Tax expense attributable to participating fund and unitholders		79,474	(69,049)
Taxation attributable to shareholders	24	(97,454)	(51,878)
Net profit for the financial year	26	<u>283,986</u>	<u>256,770</u>
Earnings per share (sen)		<u>141.99</u>	<u>128.39</u>

The accompanying notes form an integral part of the financial statements.

HONG LEONG ASSURANCE BERHAD

Registration No. 198201014849 (94613-X)

(Incorporated in Malaysia)

**STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2023**

	Note	Issued and fully paid ordinary		Reserves		Total
		No. of shares '000	Share capital RM'000	Non-distributable	Distributable	
				*Retained earnings RM'000	Retained earnings RM'000	
At 1 July 2021		200,000	200,000	1,353,839	586,411	2,140,250
Profit for the financial year		-	-	222,743	34,027	256,770
Dividend paid during the financial year	25	-	-	-	(30,000)	(30,000)
At 30 June 2022		200,000	200,000	1,576,582	590,438	2,367,020
At 1 July 2022		200,000	200,000	1,576,582	590,438	2,367,020
Profit for the financial year		-	-	176,136	107,850	283,986
Dividend paid during the financial year	25	-	-	-	(30,000)	(30,000)
At 30 June 2023		200,000	200,000	1,752,718	668,288	2,621,006

* Non-distributable retained earnings comprise surplus of contracts without discretionary participation features, net of deferred tax, which is attributable wholly to the shareholders and the amount and timing of the distribution to the shareholders is subject to the recommendation of the Company's appointed actuary.

The accompanying notes form an integral part of the financial statements.

HONG LEONG ASSURANCE BERHAD

Registration No. 198201014849 (94613-X)

(Incorporated in Malaysia)

**STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2023**

	Note	2023 RM'000	2022 RM'000
Operating activities			
Net profit for the financial year		283,986	256,770
Adjustments for:			
Investment income	18	(997,850)	(900,483)
Net realised losses	19	4,016	88,407
Fair value (gains)/losses	20	(662,703)	1,621,614
Foreign exchange (gains)/losses	7(c)	(17,991)	50,079
Proceeds from sale of fair value through profit or loss financial assets	7(c)	2,852,634	1,999,147
Maturity of fair value through profit or loss financial assets	7(c)	775,500	607,886
Purchase of fair value through profit or loss financial assets	7(c)	(5,062,525)	(4,414,254)
(Increase)/decrease in amortised cost financial assets	7(c)	(400,392)	161,247
Purchase of derivatives	19	(42,181)	(22,286)
Interest on subordinated notes		22,275	22,275
Amortisation of incidental cost		184	174
Interest on lease liabilities	23	493	595
		<u>(3,528,540)</u>	<u>(785,599)</u>
Non-cash items:			
Depreciation of property, plant and equipment	3	3,905	3,880
Depreciation of right-of-use assets	5(a)	2,052	2,065
Amortisation of intangible assets	4	2,906	3,095
Tax expense	24	176,928	(17,171)
		<u>185,791</u>	<u>(8,131)</u>
Changes in working capital:			
(Increase)/decrease in reinsurance assets		(27,053)	19,613
Decrease in insurance receivables		8,420	10,777
Increase in other receivables		(51,015)	(12,374)
Increase/(decrease) in insurance contract liabilities		1,629,102	(423,675)
Increase in insurance payables		256,191	295,886
(Decrease)/increase in other payables		(13,184)	9,291
		<u>1,802,461</u>	<u>(100,482)</u>

The accompanying notes form an integral part of the financial statements.

HONG LEONG ASSURANCE BERHAD

Registration No. 198201014849 (94613-X)

(Incorporated in Malaysia)

**STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2023 (CONT'D)**

		2023	2022
	Note	RM'000	RM'000
Cash used in operating activities		(1,256,302)	(637,442)
Dividend income received		268,165	221,892
Interest income received		728,887	690,730
Rental expenses paid		(2,688)	396
Income taxes paid		(70,079)	(84,539)
Net cash (outflow)/inflow from operating activities		<u>(332,017)</u>	<u>191,037</u>
Investing activities			
Proceeds from sale of property, plant and equipment		145	-
Purchase of property, plant and equipment	3	(4,951)	(4,613)
Purchase of intangible assets	4	(23)	(547)
Net cash outflow from investing activities		<u>(4,829)</u>	<u>(5,160)</u>
Financing activities			
Dividends paid		(30,000)	(30,000)
Payment of lease liabilities		(2,027)	(1,948)
Interest paid on lease liabilities		(493)	(595)
Interest paid on subordinated notes		(22,275)	(22,275)
Related expenses paid on subordinated notes		(184)	(174)
Net cash outflow from financing activities		<u>(54,979)</u>	<u>(54,992)</u>
Effect of exchange rate changes on cash and cash equivalents		8	(9)
Net (decrease)/increase in cash and cash equivalents		(391,817)	130,876
Cash and cash equivalents at beginning of the financial year		1,596,174	1,465,298
Cash and cash equivalents at end of the financial year		<u><u>1,204,357</u></u>	<u><u>1,596,174</u></u>
Cash and cash equivalents comprise:			
Cash and bank balances		21,322	34,242
Deposits with maturity of less than 3 months			
- Licensed financial institutions		1,183,035	1,561,932
		<u>1,204,357</u>	<u>1,596,174</u>

The accompanying notes form an integral part of the financial statements.

HONG LEONG ASSURANCE BERHAD

Registration No. 198201014849 (94613-X)

(Incorporated in Malaysia)

**STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2023 (CONT'D)**

The Company classifies the cash flows from the acquisition and disposal of financial assets as operating cash flows, as the purchases are mainly funded from the cash flows associated with the origination of insurance contracts, net the cash flows for payments of benefits and claims incurred for insurance contracts, which are treated under operating activities.

Analysis of changes in liabilities arising from financing activities is as follows:

	Note	2023 RM'000	2022 RM'000
Subordinated note			
Balance at the beginning of the financial year		604,710	604,710
Cash changes:			
- Interest paid		(22,275)	(22,275)
- Related expenses		(184)	(174)
Non-cash changes:			
- Accrued interest		22,275	22,275
- Amortised incidental costs/related expenses		184	174
Balance at the end of the financial year	17	<u>604,710</u>	<u>604,710</u>
Leases			
Balance at the beginning of the financial year		7,873	9,003
Cash changes:			
- Repayments		(2,027)	(1,948)
- Interest paid		(493)	(595)
Non-cash changes:			
- Additions		2,942	818
- Accrued interest		493	595
Balance at the end of the financial year	5(b)	<u>8,788</u>	<u>7,873</u>

The accompanying notes form an integral part of the financial statements.

HONG LEONG ASSURANCE BERHAD

Registration No. 198201014849 (94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

1 . CORPORATE INFORMATION

The Company is engaged principally in the underwriting of life insurance business, including investment-linked and annuity businesses. There have been no significant changes in the nature of the principal activities during the financial year.

The Company is a public limited liability company, incorporated and domiciled in Malaysia. The registered office of the Company is located at Level 30, Menara Hong Leong, No 6, Jalan Damanlela, Bukit Damansara, 50490 Kuala Lumpur. The principal place of business of the Company is located at Level 3, Tower B, PJ City Development, No 15A, Jalan 219, Seksyen 51A, 46100 Petaling Jaya.

The immediate, penultimate and ultimate holding companies are HLA Holdings Sdn Bhd, Hong Leong Financial Group Berhad and Hong Leong Company (Malaysia) Berhad respectively, all companies incorporated in Malaysia.

The financial statements were authorised for issue by the Board of Directors in accordance with a resolution of the Directors on 22 September 2023.

2 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been used consistently in dealing with items which are considered material to the financial statements.

(A) Basis of preparation

The financial statements of the Company have been prepared in accordance with the Malaysian Financial Reporting Standards ("MFRS"), International Financial Reporting Standards ("IFRS") and the requirements of the Companies Act 2016 in Malaysia.

The Company has met the minimum capital requirements as prescribed by the Risk-Based Capital Framework ("the RBC Framework") as at the date of the statement of financial position.

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and the liabilities simultaneously. Income and expense will not be offset in the statement of comprehensive income unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Company.

HONG LEONG ASSURANCE BERHAD

Registration No. 198201014849 (94613-X)

(Incorporated in Malaysia)

NOTES TO THE FINANCIAL STATEMENTS

2 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(A) Basis of preparation (cont'd)

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial investments at fair value through other comprehensive income and financial assets/financial liabilities at fair value through profit or loss (including derivative financial instruments and revaluation of investment properties).

The preparation of financial statements in conformity with MFRS requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of income and expenses during the reported financial year. It also requires Directors to exercise their judgment in the process of applying the Company's accounting policies. Although these estimates and judgment are based on the management and Directors' best knowledge of current events and actions, actual results may differ from those estimates.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2(N).

(i) **Standards, amendments to published standards and interpretations to existing standards that are applicable for the Company's financial year on or after 1 July 2022**

- Amendments to MFRS 3 'Reference to the Conceptual Framework'
- Amendments to MFRS 116 'Proceeds before Intended Use'
- Amendments to MFRS 137 'Onerous Contracts – Cost of Fulfilling a Contract'
- Amendments to MFRS 16 'COVID-19-Related Rent Concessions beyond 30 June 2021'
- Annual Improvements to Illustrative Example accompanying MFRS 16 'Leases: Lease Incentives'
- Annual Improvements to MFRS 9 Financial Instruments 'Fees in the 10 per cent Test for Derecognition of Financial Liabilities'
- Annual Improvements to MFRS 141 'Taxation in Fair Value Measurements'

The adoption of the above amendments to published standards are not expected to have significant impact on the financial results of the Company.

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NOTES TO THE FINANCIAL STATEMENTS

2 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(A) Basis of preparation (cont'd)

(ii) Standards, amendments to published standards and interpretations to existing standards that are applicable for the Company but not yet effective

Financial year beginning on/after 1 July 2023

■ MFRS 17 "Insurance Contracts"

MFRS 17 replaces the guidance in MFRS 4 "Insurance Contracts".

MFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes MFRS 4.

MFRS 17 provides comprehensive guidance on accounting for insurance contracts issued, reinsurance contracts held, and investment contracts with discretionary participation features. It introduces three new measurement models, reflecting a different extent of policyholder participation in investment performance or overall insurance entity performance. The general measurement model, also known as the building block approach, consists of the fulfillment cash flows and the contractual service margin. The fulfillment cash flows represent the risk-adjusted present value of an entity's rights and obligations to the policyholders, comprising estimates of expected cash flows, discounting and an explicit risk adjustment for non-financial risk. The contractual service margin represents the unearned profit from in-force contracts that an entity will recognise as it provides services over the coverage period.

At inception, the contractual service margin cannot be negative. If the fulfillment cash flows lead to a negative contractual service margin at inception, it will be set to zero and the negative amount will be recorded immediately in the statement of profit or loss. At the end of a reporting period, the carrying amount of a group of insurance contracts is the sum of the liability for remaining coverage and the liability of incurred claims. The liability for remaining coverage consists of the fulfillment cash flows related to future services and the contractual service margin, while the liability for incurred claims consists of the fulfillment cash flows related to past services. The contractual service margin gets adjusted for changes in cash flows related to future services and for the interest accretion at interest rates locked-in at initial recognition of the group of contracts. A release from the contractual service margin is recognised in profit or loss each period to reflect the services provided in that period based on "coverage units".

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2 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(A) Basis of preparation (cont'd)

(ii) Standards, amendments to published standards and interpretations to existing standards that are applicable for the Company but not yet effective (cont'd)

Financial year beginning on/after 1 July 2023 (cont'd)

■ MFRS 17 "Insurance Contracts" (cont'd)

MFRS 17 only provides principle-based guidance on how to determine these coverage units. The Company has defined the account value for the reflection of investment services and the sum at risk for insurance services as the default approach to determine the coverage units. If multiple services are provided in one contract, the coverage units will be the simple sum of all the maximum possible benefit amount payable assuming all events happen concurrently. The variable fee approach is a modification of the general measurement model regarding the treatment of the contractual service margin in order to accommodate direct participating contracts. An insurance contract has a direct participation feature if the following three requirements are met:

- (a) the contractual terms specify that the policyholder participates in a share of a clearly identified pool of underlying items;
- (b) the entity expects to pay to the policyholder an amount equal to a substantial share of the fair value returns on the underlying items; and
- (c) the entity expects a substantial proportion of any change in the amounts to be paid to the policyholder to vary with the change in fair value of the underlying items.

The assessment of whether an insurance contract meets these three criteria is made at product level at product pricing stage and not revised subsequently. For contracts with direct participation features, the contractual service margin is adjusted for changes in the amount of the entity's share of the fair value of the underlying items. No explicit interest accretion is required since the contractual service margin is effectively remeasured when it is adjusted for changes in financial risks.

For insurance contracts measured under general measurement model and variable fee approach, the Company will allocate insurance acquisition cash flows to the groups of insurance contracts and recognise as an asset insurance acquisition cash flows paid. This will be amortised based on the coverage unit of the groups of insurance contracts.

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2 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(A) Basis of preparation (cont'd)

(ii) Standards, amendments to published standards and interpretations to existing standards that are applicable for the Company but not yet effective (cont'd)

Financial year beginning on/after 1 July 2023 (cont'd)

■ MFRS 17 "Insurance Contracts" (cont'd)

The premium allocation approach is a simplified approach for the measurement of the liability of remaining coverage, an entity may choose to use when the premium allocation approach provides a measurement which is not materially different from that under the general measurement model or if the coverage period of each contract in the group of insurance contracts is one year or less. Under the premium allocation approach, the liability for remaining coverage is measured as the annualised premiums due, less the amount of premiums that have been recognised in profit or loss over the expired portion of the coverage period based on the passage of time. The measurement of the liability for incurred claims is identical under all three measurement models, except there is no discounting applied for premium allocation approach.

MFRS 17 requires the separation of embedded derivatives, investment components, and performance obligations to provide non-insurance goods and services, if certain conditions are met. The separated components need to be accounted for separately according to MFRS 9 (embedded derivatives, investment components) or MFRS 15 (non-insurance goods and services). Measurement is not carried out at the level of individual contracts, but on the basis of groups of contracts. To allocate individual insurance contracts to groups of contracts, an entity first needs to define portfolios which include contracts with similar risks that are managed together.

In the statement of financial position, insurance related receivables will no longer be presented separately but as part of the insurance liabilities. This change in presentation will lead to a reduction in total assets, offset by a reduction in total liabilities. The amounts presented in the statement of financial performance need to be disaggregated into an insurance service result, consisting of the insurance revenue and the insurance service expenses, and insurance finance income and expenses. Income or expenses from reinsurance contracts held need to be presented separately from the expenses or income from insurance contracts issued.

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NOTES TO THE FINANCIAL STATEMENTS

2 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(A) Basis of preparation (cont'd)

(ii) Standards, amendments to published standards and interpretations to existing standards that are applicable for the Company but not yet effective (cont'd)

Financial year beginning on/after 1 July 2023 (cont'd)

■ MFRS 17 "Insurance Contracts" (cont'd)

For insurance contracts issued, the Company adopted the modified retrospective approach for all currently modelled products in annual cohorts between 1 July 2018 to 30 June 2022. For modelled products prior to 1 July 2018, fair value approach is adopted.

In respect of reinsurance contract held, fair value approach will be applied for the reinsurance contracts held prior to 1 July 2022.

Full retrospective approach will be applied for insurance contracts issued and reinsurance contracts held from 1 July 2022 onwards.

The preparation of the 1 July 2022 comparatives and the 1 July 2023 results under the new standard is progressing as planned. The Company expects a positive equity impact on the transition to MFRS 17.

- ###### ■ Amendments to MFRS 112 'Deferred Tax related to Assets and Liabilities arising from a Single Transaction' (effective 1 January 2023) clarify that the initial exemption rule does not apply to transactions where both an asset and a liability are recognised at the same time such as leases and decommissioning obligations. Accordingly, entities are required to recognise both deferred tax assets and liabilities for all deductible and taxable temporary differences arising from such transactions.

The amendments shall be applied retrospectively.

- ###### ■ Amendments to MFRS 16 'Lease Liability in a Sale and Leaseback' (effective 1 January 2024) specify the measurement of the lease liability arises in a sale and leaseback transaction that satisfies the requirements in MFRS 15 'Revenue from Contracts with Customers' to be accounted for as a sale. In accordance with the amendments, the seller-lessee shall determine the 'lease payments' or 'revised lease payments' in a way that it does not result in the seller-lessee recognising any amount of the gain or loss that relates to the right of use it retains.

The amendments shall be applied retrospectively.

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NOTES TO THE FINANCIAL STATEMENTS

2 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(A) Basis of preparation (cont'd)

(ii) Standards, amendments to published standards and interpretations to existing standards that are applicable for the Company but not yet effective (cont'd)

Financial year beginning on/after 1 July 2023 (cont'd)

- There are two amendments to MFRS 101 'Presentation of Financial Statements'. The first amendments, 'Classification of liabilities as current or non-current' clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the entity's expectations or events after the reporting date (e.g. the receipt of a waiver or a breach of covenant). In addition, the amendments clarify that when a liability could be settled by the transfer of an entity's own equity instruments (e.g. a conversion option in a convertible bond), conversion option meeting the definition of an equity instrument in MFRS 132 'Financial Instruments: Presentation' does not impact the current or non-current classification of the convertible instrument.

The second amendments, 'Non-current Liabilities with Covenants' specify that covenants of loan arrangements which an entity must comply with only after the reporting date would not affect classification of a liability as current or non-current at the reporting date. However, those covenants that an entity is required to comply with on or before the reporting date would affect classification of a liability as current or non-current, even if the covenant is only assessed after the reporting date.

Both amendments are effective for the annual reporting periods beginning on or after 1 January 2024.

The amendments shall be applied retrospectively.

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NOTES TO THE FINANCIAL STATEMENTS

2 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(B) Intangible assets

Computer software

Computer software licenses acquired separately are capitalised on the basis of the costs incurred to acquire and bring the asset for its intended use. These costs are amortised over their estimated useful lives which are estimated to be 5 years.

Costs that are directly associated with knowledge-based software and computer applications which are unique to the requirements of the insurance business are recognised as intangible assets. These software and applications are expected to generate economic benefits beyond one year. Direct attributable costs include the software development employee costs and an appropriate portion of relevant overheads to prepare the asset for its intended use. These costs are recognised as assets and amortised over their useful lives which are estimated to be 5 years.

Costs associated with developing or maintaining computer software programmes are recognised as an expense when it is incurred.

(C) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Subsequent costs are included in the carrying amount of the assets when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be reliably estimated. All other repairs and maintenance are charged to the statement of comprehensive income during the financial year in which they are incurred.

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NOTES TO THE FINANCIAL STATEMENTS

2 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(C) Property, plant and equipment and depreciation (cont'd)

Freehold land and capital work-in-progress are not depreciated. Depreciation on capital work-in-progress commences when the assets are ready for their intended use. Depreciation of other property, plant and equipment is calculated to write off the cost of the assets to their residual values over the estimated useful lives, summarised as follows:

Leasehold land	Over the lease period
Leasehold buildings	Over the remaining period of the lease or 50 years, whichever is shorter
Freehold buildings	50 years
Furniture and fittings	10 years
Renovation, equipment and computers	5 - 10 years
Motor vehicles	5 years

The residual value and useful lives of assets are reviewed and adjusted if appropriate at each date of the statement of financial position.

At each date of the statement of financial position, the Company assesses whether there is any indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount. Refer to Note 2(I)(ii) for accounting policy on impairment of non-financial assets.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are recognised within "realised gains and losses" in the statement of comprehensive income.

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NOTES TO THE FINANCIAL STATEMENTS

2 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(D) Investment properties

Investment properties are properties which are held either for rentals or for capital appreciation or for both. Such properties are measured initially at cost, including transaction costs.

Investment properties are subsequently carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Company uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. The fair values of investment properties are reviewed annually, and a formal valuation by an independent professional valuer is carried out once in every three years. All gains or losses arising from a change in fair value of investment properties are recognised in the statement of comprehensive income.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of comprehensive income in the financial year in which they arise.

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NOTES TO THE FINANCIAL STATEMENTS

2 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(E) Lease

From 1 July 2019, leases are recognised as right-of-use ("ROU") asset and a corresponding liability at the date on which the leased asset is available for use by the Company (i.e. the commencement date).

Contracts may contain both lease and non-lease components. The Company allocate the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

Lease term

In determining the lease term, the Company considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not to be terminated).

The Company reassesses the lease term upon the occurrence of a significant event or change in circumstances that is within the control of the Company, and affects whether the Company is reasonably certain to exercise an option not previously included in the determination of lease term, or not to exercise an option previously included in the determination of lease term. A revision in lease term results in remeasurement of the lease liabilities. See accounting policy below on reassessment of lease liabilities.

ROU assets

ROU assets are initially measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentive received;
- any initial direct costs; and
- decommissioning or restoration costs.

The Company applies the fair value model to ROU assets that meet the definition of investment properties of MFRS 140 consistent with those investment properties owned by the Company. Refer to Note 2(D) for accounting policy on investment properties.

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NOTES TO THE FINANCIAL STATEMENTS

2 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(E) Lease (cont'd)

ROU assets (cont'd)

ROU assets that are not investment properties are subsequently measured at cost, less accumulated depreciation and impairment loss (if any). The ROU assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Company is reasonably certain to exercise a purchase option, the ROU asset is depreciated over the underlying asset's useful life. In addition, the ROU assets are adjusted for certain remeasurement of the lease liabilities.

Lease liabilities

Lease liabilities are initially measured at the present value of the lease payments that are not paid at that date. The lease payments include the following:

- fixed payments (including in-substance fixed payments), less any lease incentive receivable;
- amounts expected to be payable by the Company under residual value guarantees;
- the exercise price of a purchase and extension options if the Company is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Company exercising that option.

Lease payments are discounted using the interest/profit rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Company, an incremental borrowing rate is used in determining the discount rate which assumes the interest/profit rate that the Company would have to pay to borrow over a similar term, the funds necessary to obtain the asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The Company presents the lease liabilities as a separate line item in the statement of financial position. Interest expense on the lease liability is presented under management expense in the statement of comprehensive income.

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NOTES TO THE FINANCIAL STATEMENTS

2 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(E) Lease (cont'd)

Lease liabilities (cont'd)

Short term leases and leases of low value assets

The Company elects to apply MFRS 16 recognition exemption such as short-term leases and leases for which the underlying asset is of low value. Short-term leases are leases with a lease term of 12 months or less with no purchase option. Low-value assets comprise IT equipment and small items of office furniture. Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in the statement of comprehensive income.

(F) Financial instruments

Financial assets

(i) Classification

The Company classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value through profit or loss; and
- those to be measured at amortised cost

(ii) Recognition and derecognition

Regular purchases and sales of financial assets are recognised on trade-date, the date on which the Company commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

(iii) Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ('FVTPL'), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in statement of comprehensive income.

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NOTES TO THE FINANCIAL STATEMENTS

2 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(F) Financial instruments (cont'd)

Financial assets (cont'd)

(iii) Measurement (cont'd)

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest ('SPPI').

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds.

Classification and subsequent measurement of debt instruments depend on the following factors:

- The Company's business model for managing the financial assets; and
- The contractual cash flow characteristics of the financial assets.

Based on these factors, the Company classifies its debt instruments into one of the following two measurement categories:

■ **Amortised cost ('AC')**

Assets that are held for collection of contractual cash flows where those cash flows represent SPPI are measured at amortised cost. Interest income from these financial assets is included in investment income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in statement of comprehensive income as presented in net realised gain or loss on financial instruments. Impairment losses are presented as separate line item in the statement of comprehensive income.

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NOTES TO THE FINANCIAL STATEMENTS

2 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(F) Financial instruments (cont'd)

Financial assets (cont'd)

(iii) Measurement (cont'd)

Debt instruments (cont'd)

■ Fair value through profit or loss ('FVTPL')

Financial assets that do not meet the criteria for amortised cost or fair value through other comprehensive income are measured at FVTPL. The Company may also irrevocably designate financial assets at FVTPL if doing so significantly reduces or eliminates a mismatch created by assets and liabilities being measured on different bases. Fair value changes are recognised in statement of comprehensive income and presented as net fair value gain or loss in the period which it arises.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuers' perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuers' net assets.

The Company subsequently measures all equity instruments at FVTPL. Dividend will be recognised in statement of comprehensive income as investment income when the Company's right to receive payments is established.

Changes in fair value of financial assets at FVTPL are included in the 'fair value gains/(losses) arising from financial assets FVTPL' in the statement of comprehensive income.

(iv) Reclassification policy

Reclassification of financial assets is required when, and only when, the Company changes its business model for managing the assets. In such cases, the Company is required to reclassify all affected financial assets.

However, it will be inappropriate to reclassify financial assets that have been designated at fair value through profit or loss, or equity instruments that have been designated at fair value through other comprehensive income even when there is a change in business model. Such designations are irrevocable.

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NOTES TO THE FINANCIAL STATEMENTS

2 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(F) Financial instruments (cont'd)

Financial liabilities

Financial liabilities are measured at amortised cost. Financial liabilities are initially recognised at fair value plus transaction costs. Subsequently, financial liabilities are remeasured at amortised cost using the effective interest/profit rate. Financial liabilities are de-recognised when extinguished.

(G) Fair value of financial instruments

The fair values of Malaysian Government Securities, Government Investment Issues and unquoted corporate securities are based on indicative fair market prices/index by reference to the quotations provided by banks and brokers.

The fair values of quoted securities are based on current market prices. If the market for a financial asset is not active, the Company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models.

For investments in unit and real estate investment trusts, fair value is determined by reference to published bid values.

The fair value of structured deposits is based on the prices quoted by the issuing financial institution.

The fair value of floating rate and over-night deposits with financial institutions is their carrying value (i.e. the cost of the deposits/placements and accrued interest/profits).

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NOTES TO THE FINANCIAL STATEMENTS

2 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(H) Derivative financial instruments and hedging

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and option pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of any derivatives that do not qualify for hedge accounting are recognised immediately in the statement of comprehensive income.

The best evidence of fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of the instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Company recognises the fair value of derivatives in statement of comprehensive income immediately.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Company designated its derivatives as hedges of the fair value of recognised assets (fair value hedge). Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

At the inception of the transaction, the Company documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of hedged items.

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NOTES TO THE FINANCIAL STATEMENTS

2 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(H) Derivative financial instruments and hedging (cont'd)

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the statement of comprehensive income, together with any changes in the fair value of the hedged assets or liabilities that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item is amortised to the statement of comprehensive income based on recalculated effective interest rate method over the period to maturity. The adjustment to the carrying amount of a hedged equity security remains as part of the carrying amount until the disposal of the equity security.

(I) Impairment

(i) Financial assets

Impairment for Expected Credit Loss ("ECL") is not applicable for debt instruments as the Company has elected the fair value option ("FVO") to designate all debt instruments to be measured at FVTPL.

The financial assets that are subject to the ECL assessment are as follows:

- Cash and cash equivalents
- Insurance receivables
- Other receivables

While cash and cash equivalents are also subject to the impairment requirements of MFRS 9, the identified impairment loss was immaterial.

ECL represent a probability-weighted estimate of the difference between present value of cash flows according to contract and present value of cash flows the Company expects to receive, over the remaining life of the financial instrument.

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NOTES TO THE FINANCIAL STATEMENTS

2 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(l) Impairment (cont'd)

(i) Financial assets (cont'd)

The measurement of ECL reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Simplified approach for insurance receivables

The Company applies the MFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all insurance receivables. The expected loss allowance is based on provisional matrix with the usage of forward-looking information in determining ECL, including the use of macroeconomic information.

General 3-stage approach for other receivables

At each reporting date, the Company measures ECL through loss allowance at an amount equal to 12 month ECL if credit risk on a financial asset or a company of financial assets has not increased significantly since initial recognition. For all other financial assets, a loss allowance at an amount equal to lifetime ECL is required. Note 32(a) sets out the measurement details of ECL.

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NOTES TO THE FINANCIAL STATEMENTS

2 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(I) Impairment (cont'd)

(ii) Non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the assets exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

The impairment loss is charged to the statement of comprehensive income immediately. Any subsequent increase in recoverable amount of non-financial assets is treated as reversal of the previous impairment loss and is recognised to the extent of the carrying amount of the non-financial asset that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised. The reversal is recognised in the statement of comprehensive income immediately.

(J) Cash and cash equivalents

Cash and cash equivalents consist of cash, balances and deposits held with financial institutions with maturities of three months or less that are readily convertible to known amount of cash which are subject to an insignificant risk of changes in value.

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NOTES TO THE FINANCIAL STATEMENTS

2 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(K) Product classification

An insurance contract is a contract under which the Company (the insurer) has accepted significant insurance risk from another party (the policyholders) by agreeing to compensate the policyholders if a specified uncertain future event (the insured event) adversely affects the policyholders. The Company defines insurance risk to be significant when the benefits payable on the occurrence of the insured event are 5% or more than the benefits payable if the insured event did not occur at any one point of the insurance contract. Based on this definition, all policy contracts issued by the Company are considered insurance contracts as at the date of the statement of financial position.

Investment contracts are those contracts that do not transfer significant insurance risk, but significant financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of price or rate, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. Insurance risk is the risk other than financial risk.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its life-time, even if the insurance risk reduces significantly during this period, unless all rights and obligations are extinguished or expire. Investment contracts can, however, be reclassified as insurance contracts after inception if insurance risk becomes significant.

Insurance and investment contracts are further classified as being either with or without discretionary participation features ("DPF"). DPF is a contractual right to receive, as a supplement to guaranteed benefits, additional benefits that are:

- likely to be a significant portion of the total contractual benefits;
- whose amount or timing is contractually at the discretion of the issuer; and
- that are contractually based on the:
 - performance of a specified pool of contracts or a specified type of contract;
 - realised and/or unrealised investment returns on a specified pool of assets held by the issuer; or
 - profit or loss of the company, fund or other entity that issues the contract.

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NOTES TO THE FINANCIAL STATEMENTS

2 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(K) Product classification (cont'd)

Contracts in the participating fund are classified as insurance contracts with DPF and contracts in the non-participating fund are classified as insurance contracts without DPF.

For financial options and guarantees which are not closely related to the host insurance contract and/or investment contract with DPF, bifurcation is required to measure these embedded derivatives separately at fair value through profit or loss. However, bifurcation is not required if the embedded derivative is itself an insurance contract and/or investment contract with DPF, or if the host insurance contract and/or investment contract itself is measured at fair value through profit or loss.

(L) Reinsurance

The Company cedes insurance risk in the normal course of business for its businesses. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contracts.

Ceded reinsurance arrangements do not relieve the Company from its obligations to policyholders. Premiums and claims are presented on a gross basis for ceded reinsurance.

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting period. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Company may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Company will receive from the reinsurer. The impairment loss is recorded in the statement of comprehensive income.

Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract.

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

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2 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(M) Life insurance underwriting results

The surplus transferable from the life fund to the statement of comprehensive income is based on the surplus determined by an annual actuarial valuation of the long term liabilities to policyholders. In the event the actuarial valuation indicates that a transfer is required from the shareholders' fund, the transfer from the statement of comprehensive income to the life insurance fund is made in the financial year of the actuarial valuation.

Gross premium

Premium income includes premium recognised in the life fund and the investment-linked fund.

Premium income of the life fund is recognised as soon as the amount of the premium can be reliably measured. First premium is recognised from inception date and subsequent premium is recognised when it is due.

At the end of the financial year, all due premiums are accounted for to the extent that they can be reliably measured.

Premium income of the investment-linked fund includes net creation of units which represents premiums paid by policyholders as payment for a new contract or subsequent payments to increase the amount of that contract. Net creation of units is recognised on a receipt basis.

Reinsurance premium

Outward reinsurance premiums are recognised in the same accounting period as the original policies to which the reinsurance relates.

Commission and agency expenses

Commission and agency expenses, which are costs directly incurred in securing premium on insurance policies, net of income derived from reinsurers in the course of ceding of premium to reinsurers, are charged to the statement of comprehensive income in the financial year in which they are incurred.

Benefits, claims and expenses

Benefits and claims that are incurred during the financial year are recognised when a claimable event occurs and/or the insurer is notified.

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NOTES TO THE FINANCIAL STATEMENTS

2 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(M) Life insurance underwriting results (cont'd)

Benefits, claims and expenses (cont'd)

Recoveries on reinsurance claims are accounted for in the same financial year as the original claims are recognised.

Benefits and claims for claims arising on life insurance policies including settlement costs, less reinsurance recoveries, are accounted for using the case basis method and for this purpose, the benefits payable under a life insurance policy are recognised as follows:

- (a) maturity or other policy benefit payments due on specified dates are treated as claims payable on the due dates; and
- (b) death, surrender and other benefits without due dates are treated as claims payable, on the date of receipt of intimation of death of the assured or occurrence of contingency covered.

Insurance contract liabilities

These liabilities comprise claims liabilities, actuarial liabilities, unallocated surpluses and net asset value attributable to unitholders.

(i) Actuarial liabilities

Actuarial liabilities are recognised when contracts are entered into and premiums are charged.

These liabilities are value using a prospective actuarial valuation method^[a] based on the sum of the present value of future guaranteed and, in the case of a participating policy, appropriate level of non-guaranteed benefits, and the expected future management and distribution expenses, less the present value of future gross considerations arising from the policy discounted at the appropriate risk discount rate. The liabilities are determined using best estimate assumptions, and with due regard to significant recent experience. An appropriate allowance for provision of risk margin for adverse deviation from expected experience is made in the valuation of non-participating policies, non-participating annuity policies, the guaranteed benefits liabilities of participating policies and participating annuity policies, and non-unit liabilities of investment-linked policies.

^[a] With the exception of short-term policies, where the best estimate liabilities are determined as the aggregate of best estimate premium liabilities and best estimate Incurred But Not Reported ("IBNR") claims liabilities.

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NOTES TO THE FINANCIAL STATEMENTS

2 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(M) Life insurance underwriting results (cont'd)

Insurance contract liabilities (cont'd)

(i) Actuarial liabilities (cont'd)

The liabilities in respect of the participating policies, including participating annuity policies, are taken as the higher of the guaranteed benefits liabilities or the total benefits liabilities, derived at the fund level.

Where policies or extensions of a policy are collectively treated as an asset at the fund level under the valuation method adopted, the value of such asset is eliminated through zerorisation.

The liability is derecognised when the contract expires, is discharged or is cancelled.

(ii) Unallocated surplus

Surplus of contracts with DPF is distributable to policyholders and shareholders in accordance with the relevant terms under the insurance contracts. The Company, however, has the discretion over the amount of the distribution of these surpluses to policyholders and shareholders, subject to the recommendation of the Company's Appointed Actuary ("AA"). Surplus of contracts without DPF is attributable wholly to the shareholders and is classified as an equity of the Company. Any unallocated surpluses, where the amounts of surplus are yet to be allocated or distributed to either policyholders or shareholders by the end of the financial year, are held within the underlying insurance fund.

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NOTES TO THE FINANCIAL STATEMENTS

2 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(N) Valuation of insurance contract liabilities

The valuation of the insurance liabilities arising from policy benefits made under life insurance contracts is the Company's most critical accounting estimate. The assumptions in relation to mortality, morbidity, investment returns, expenses, Lapse and Surrender, Partial Withdrawal and Premium Holiday rates ("Lapse and Surrender"), and discount rates are used for calculating the actuarial liabilities during the life of the contract. Such assumptions require a certain degree of professional judgment and therefore, actual experience may differ from the assumptions made by the Company. Actual experience is monitored to assess whether the assumptions remain appropriate and assumptions are revised following experience studies on key assumptions carried out annually. Revisions in the key assumptions may impact the actuarial liabilities.

The key assumptions used in the determination of actuarial liabilities are as follows:

(i) Discount rate

The risk-free discount rates are used to determine the liability of a non-participating policy, the guaranteed benefits liability of a participating policy, and the non-unit liability of an investment-linked policy.

The risk-free discount rates are derived from the Malaysian Government Securities ("MGS") yield curve using the following method:

- (a) for durations of less than 15 years: MGS zero-coupon spot yields with matching duration; and
- (b) for durations of 15 years or more: MGS zero-coupon spot yields with 15 years term to maturity,

where duration is the term to maturity of each future cash flow.

For the valuation of total benefits liabilities of participating ordinary policies and participating annuity policies, the net fund based yield for the respective fund (net of investment tax and investment expense) is used. The fund based yields for participating ordinary fund and participating annuity fund are 5.6% (2022: 5.1%) and 4.6% (2022: 4.6%) per annum respectively. The liabilities for participating ordinary policies and participating annuity policies are taken as the higher of total benefits liabilities valued using net fund based yield and guaranteed benefits liabilities valued using MGS rates.

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NOTES TO THE FINANCIAL STATEMENTS

2 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(N) Valuation of insurance contract liabilities (cont'd)

(ii) Mortality, morbidity, expenses, lapse and surrenders

The Company sets mortality and morbidity assumptions based on established industry and reinsurers' tables that reflect historical experience, adjusted where appropriate to reflect the Company's unique risk exposure, product characteristics, target markets and own claims severity and frequency experience.

Assumptions on future expenses are updated, with reference to the latest experience studies using the latest data set on actual expenses incurred and expense loadings, adjusted for expected expense inflation and other known expected changes, where applicable.

Lapse and surrender rates are derived taking into account the Company's historical experience of lapses and surrenders.

For the valuation of non-participating ordinary policies, non-participating annuity policies, the non-unit liabilities of the investment-linked policies and the guaranteed benefits liabilities of participating ordinary policies and participating annuity policies, Provision of Risk Margin for Adverse Deviation ("PRAD") assumptions are applied on the best estimate assumptions.

For the valuation of total benefits liabilities of participating ordinary policies and participating annuity policies, the best estimate assumptions are used.

Adjustments to the liabilities at each reporting date are recorded in the statement of comprehensive income. The liability is derecognised when the contract expires, is discharged or is cancelled.

As the valuation methods used to value actuarial liabilities are in accordance with the RBC Framework for insurers, the Company is deemed to have complied with the requirements of a liability adequacy test under MFRS 4 "Insurance Contracts".

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NOTES TO THE FINANCIAL STATEMENTS

2 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(O) Other income recognition

Interest income including the amount of amortisation of premiums and accretion of discounts, is recognised using the effective yield method.

Rental income is recognised on an accrual basis, except where default in payment of rent has already occurred and rent due remains outstanding for over six months in which case recognition of rental income is suspended. Subsequent to suspension, income is recognised on a receipt basis until all arrears have been paid.

Dividend income is recognised when the right to receive payment is established.

(P) Taxation

Taxation on the statement of comprehensive income for the financial year comprises current and deferred tax. Current tax is the expected amount of tax payable in respect of the taxable income for the financial year, using tax rates enacted or substantially enacted at the date of the statement of financial position, and any adjustment to tax payable in respect of previous financial years.

Deferred taxation is provided in full using the liability method, on temporary differences at the date of the statement of financial position between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or a liability in a transaction other than a business combination that at the time of transaction affects neither accounting nor taxable profit or loss.

Deferred tax is measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, using tax rates enacted or substantially enacted at the date of the statement of financial position.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

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NOTES TO THE FINANCIAL STATEMENTS

2 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(Q) Foreign currencies

Functional and presentation currency

The financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in Ringgit Malaysia, which is the Company's functional and presentation currency.

Transaction and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transaction and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Changes in the fair value of monetary securities denominated in foreign currency classified as financial instruments available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in income, and other changes in the carrying amount are recognised in equity or policyholders' fund.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets are recognised in income as part of the financial instruments fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the fair value reserve in equity or policyholders' fund except for gain or loss attributable to the hedged risk (if the hedged item is an AFS financial asset) of a fair value hedge, which shall be recognised in the statement of comprehensive income.

(R) Dividends

Dividends on ordinary shares are accounted for in the shareholders' equity as an appropriation of retained earnings in the period in which they are declared.

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NOTES TO THE FINANCIAL STATEMENTS

2 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(S) Assets held-for-sale and discontinued operations

Non-current assets are classified as assets held-for-sale and stated at the lower of carrying amount and fair value less cost to sell if their carrying amounts are recovered principally through a sale transaction rather than through continuing use.

(T) Employee benefits

(i) Short term benefits

Wages, salaries, bonuses and social security contributions and other non-monetary benefits are recognised as expenses in the financial year in which the associated services are rendered by employees of the Company.

(ii) Defined contribution plans

A defined contribution plan is a pension plan under which the Company pay fixed contributions into a fund, either managed by a separate entity or internally on a mandatory, contractual or voluntary basis and the Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior financial periods.

The Company also contributes to a national defined contribution plan (the Employees Provident Fund) on a mandatory basis and the amounts contributed to the plan are charged to the statement of comprehensive income in the period to which they relate. Once the contributions have been paid, the Company has no further payment obligations.

(U) Provisions

Provisions are recognised when the Company has a present legal constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and when a reliable estimate of the amount can be made.

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NOTES TO THE FINANCIAL STATEMENTS

2 . SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(V) Contingent liabilities and contingent assets

The Company does not recognise a contingent liability but discloses its existence in the financial statements. A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Company or a present obligation that is not recognised because it is not probable that an outflow of resources will be required to settle the obligation.

A contingent liability also arises in the extremely rare case where there is a liability that cannot be recognised because it cannot be measured reliably.

A contingent asset is a possible asset that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Company. The Company does not recognise contingent assets but discloses their existence where inflows of economic benefits are probable, but not virtually certain.

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NOTES TO THE FINANCIAL STATEMENTS**3. PROPERTY, PLANT AND EQUIPMENT**

	Land		Buildings		Furniture and fittings RM'000	Renovation, equipment and computers RM'000	Motor vehicles RM'000	Capital work-in- progress RM'000	Total RM'000
	Freehold RM'000	Leasehold* RM'000	Freehold RM'000	Leasehold* RM'000					
Cost									
At 1 July 2021	2,451	2,205	2,353	78,280	2,171	55,960	1,148	8,767	153,335
Additions	-	-	-	-	34	720	-	3,859	4,613
Reclassification (Note 4)	-	-	-	-	-	-	-	(2,428)	(2,428)
At 30 June 2022	2,451	2,205	2,353	78,280	2,205	56,680	1,148	10,198	155,520
At 1 July 2022	2,451	2,205	2,353	78,280	2,205	56,680	1,148	10,198	155,520
Additions	-	-	-	-	20	644	999	3,288	4,951
Disposal	-	-	-	-	-	-	(561)	-	(561)
Reclassification (Note 4)	-	-	-	-	-	698	-	(4,759)	(4,061)
At 30 June 2023	2,451	2,205	2,353	78,280	2,225	58,022	1,586	8,727	155,849

* These are the right-of-use assets within the scope of MFRS 16. Refer to accounting policies for leases as disclosed in Note 2(E).

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NOTES TO THE FINANCIAL STATEMENTS**3 . PROPERTY, PLANT AND EQUIPMENT (CONT'D)**

	Land		Buildings		Furniture and fittings RM'000	Renovation, equipment and computers RM'000	Motor vehicles RM'000	Capital work-in- progress RM'000	Total RM'000
	Freehold RM'000	Leasehold* RM'000	Freehold RM'000	Leasehold* RM'000					
Accumulated depreciation									
At 1 July 2021	-	766	280	19,972	1,968	48,430	995	-	72,411
Charge for the year (Note 23)	-	30	48	1,565	51	2,109	77	-	3,880
At 30 June 2022	-	796	328	21,537	2,019	50,539	1,072	-	76,291
At 1 July 2022	-	796	328	21,537	2,019	50,539	1,072	-	76,291
Charge for the year (Note 23)	-	31	47	1,566	51	2,016	194	-	3,905
Disposal	-	-	-	-	-	-	(561)	-	(561)
At 30 June 2023	-	827	375	23,103	2,070	52,555	705	-	79,635

* These are the right-of-use assets within the scope of MFRS 16. Refer to accounting policies for leases as disclosed in Note 2(E).

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NOTES TO THE FINANCIAL STATEMENTS**3. PROPERTY, PLANT AND EQUIPMENT (CONT'D)**

	Land		Buildings		Furniture and fittings RM'000	Renovation, equipment and computers RM'000	Motor vehicles RM'000	Capital work-in- progress RM'000	Total RM'000
	Freehold	Leasehold*	Freehold	Leasehold*					
	RM'000	RM'000	RM'000	RM'000					
Net carrying amount									
At 30 June 2022	2,451	1,409	2,025	56,743	186	6,141	76	10,198	79,229
At 30 June 2023	2,451	1,378	1,978	55,177	155	5,467	881	8,727	76,214

Included in property, plant and equipment are fully depreciated assets which are still in use as follows:

	Land		Buildings		Furniture and fittings RM'000	Renovation, equipment and computers RM'000	Motor vehicles RM'000	Capital work-in- progress RM'000	Total RM'000
	Freehold	Leasehold*	Freehold	Leasehold*					
	RM'000	RM'000	RM'000	RM'000					
At cost									
At 30 June 2022	-	-	-	-	1,696	43,995	842	-	46,533
At 30 June 2023	-	-	-	-	1,732	44,421	281	-	46,434

* These are the right-of-use assets within the scope of MFRS 16. Refer to accounting policies for leases as disclosed in Note 2(E).

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NOTES TO THE FINANCIAL STATEMENTS**4 . INTANGIBLE ASSETS**

	2023	2022
	RM'000	RM'000
Cost		
At 1 July	87,025	84,050
Additions	23	547
Reclassification (Note 3)	4,061	2,428
At 30 June	<u>91,109</u>	<u>87,025</u>
Accumulated amortisation		
At 1 July	80,872	77,777
Charge for the year (Note 23)	2,906	3,095
At 30 June	<u>83,778</u>	<u>80,872</u>
Net carrying amount	<u>7,331</u>	<u>6,153</u>

5 . LEASES**(a) Right-of-use assets**

	2023	2022
	RM'000	RM'000
At 1 July	7,300	8,547
Additions	2,927	818
Depreciation charge for the year (Note 23)	(2,052)	(2,065)
At 30 June	<u>8,175</u>	<u>7,300</u>

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NOTES TO THE FINANCIAL STATEMENTS**5. LEASES (CONT'D)****(b) Lease liabilities**

	2023	2022
	RM'000	RM'000
Lease liabilities	8,788	7,873

Scheduled repayment of lease liabilities, showing contractual discounted cash flows:

	2023	2022
	RM'000	RM'000
Scheduled repayment of lease liabilities		
- Up to 1 year	2,035	1,751
- 1 to 5 years	5,466	5,415
- Over 5 years	1,287	707
	<u>8,788</u>	<u>7,873</u>

6. INVESTMENT PROPERTIES

	2023	2022
	RM'000	RM'000
At 1 July	471,610	469,610
Fair value gains (Note 20)	20	2,000
At 30 June	<u>471,630</u>	<u>471,610</u>

The analysis of investment properties is as follows:

Freehold land and building	469,000	469,000
Leasehold land and building *	2,630	2,610
	<u>471,630</u>	<u>471,610</u>

* Leasehold land are the right-of-use assets within the scope of MFRS 16. Refer to accounting policies for leases as disclosed in Note 2(E).

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NOTES TO THE FINANCIAL STATEMENTS

6. INVESTMENT PROPERTIES (CONT'D)

The fair values of the investment properties were revalued by an independent professional valuer, Raine & Horne International Zaki + Partners Sdn Bhd who hold recognised relevant professional qualifications and have recent experience in the locations and segments of the investment properties valued. Fair value changes are recorded in statement of comprehensive income.

Valuation techniques adopted

Pursuant to MFRS 13 Fair Value Measurement, the Company establishes a fair value hierarchy that categorises into three levels of inputs to valuation techniques used to measure fair value as disclosed in Note 33.

	2023	2022
	RM'000	RM'000
Level 2	2,630	2,610
Level 3	469,000	469,000
	<u>471,630</u>	<u>471,610</u>

Reconciliation of fair value measurements in Level 3 of the fair value hierarchy:

	2023	2022
	RM'000	RM'000
At 1 July	469,000	467,000
Fair value gains	-	2,000
At 30 June	<u>469,000</u>	<u>469,000</u>

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NOTES TO THE FINANCIAL STATEMENTS**6 . INVESTMENT PROPERTIES (CONT'D)**

Description of valuation techniques used and key inputs to valuation on investment properties measured at Level 3:

Valuation Technique	Unobservable input	2023	2022
Comparison & Investment Method	Term Yield	6.00%	6.00%
	Revisionary Rate	6.50% - 6.70%	6.50% - 6.75%
	Average rental per square feet (net)	RM2.07 - RM3.84	RM2.11 - RM3.87
	Discount Rate	6.50% - 6.70%	6.50% - 6.75%
	Estimated value per square feet	RM521.38 - RM799.11	RM521.38 - RM799.11

The investment properties generated rental income and incurred the following direct expenses:

	2023	2022
	RM'000	RM'000
Rental income generated	7,193	8,789
Direct operating expenses	(9,862)	(8,462)
	<u>(2,669)</u>	<u>327</u>

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NOTES TO THE FINANCIAL STATEMENTS**7. FINANCIAL ASSETS**

	2023	2022
	RM'000	RM'000
Malaysian Government Securities and other Government guaranteed assets	8,846,776	8,117,039
Corporate bonds	6,951,106	6,287,424
Equity securities	3,969,167	3,917,414
Unit trusts and real estate investment trusts	1,983,256	1,604,459
Policy loans and premium loans	254,748	295,959
Deposits with financial institutions	2,280,023	1,503,125
	<u>24,285,076</u>	<u>21,725,420</u>

The Company's financial assets are summarised by categories as follows:

	2023	2022
	RM'000	RM'000
FVTPL financial assets	23,556,895	21,399,776
AC financial assets	728,181	325,644
	<u>24,285,076</u>	<u>21,725,420</u>

The following investments mature within 12 months:

FVTPL financial assets	854,327	804,867
AC financial assets	728,181	325,644
	<u>1,582,508</u>	<u>1,130,511</u>

The following investments mature after 12 months:

FVTPL financial assets	<u>22,702,568</u>	<u>20,594,909</u>
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NOTES TO THE FINANCIAL STATEMENTS**7. FINANCIAL ASSETS (CONT'D)****(a) FVTPL financial assets**

	2023	2022
	RM'000	RM'000
At fair value:		
Malaysian Government Securities and other Government guaranteed assets	8,846,776	8,117,039
Corporate bonds		
- Unquoted in Malaysia	6,941,828	6,278,377
- Unquoted outside Malaysia	9,278	9,047
Equity securities		
- Quoted in Malaysia *	3,355,320	3,327,356
- Quoted outside Malaysia	500,421	478,030
- Unquoted in Malaysia	113,426	112,028
Unit trusts and real estate investment trusts		
- Quoted in Malaysia	187,999	133,381
- Unquoted in Malaysia	1,795,257	1,471,078
Deposits with financial institutions	1,806,590	1,473,440
	<u>23,556,895</u>	<u>21,399,776</u>

* As at 30.06.2023, includes Hong Leong Financial Group Berhad ("HLFG") ordinary shares held by RHB Trustees Berhad for the Executive Share Scheme.

(b) AC financial assets

	2023	2022
	RM'000	RM'000
At cost:		
Deposits with financial institutions	473,433	29,685
Policy loans	25,306	25,168
Premium loans	229,442	270,791
	<u>728,181</u>	<u>325,644</u>

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NOTES TO THE FINANCIAL STATEMENTS**7. FINANCIAL ASSETS (CONT'D)****(c) Carrying value of financial instruments**

	FVTPL RM'000	AC RM'000	Total RM'000
At 1 July 2021	21,339,469	493,048	21,832,517
Purchases	4,414,254	-	4,414,254
Maturities	(607,886)	-	(607,886)
Disposals	(1,999,147)	-	(1,999,147)
Realised losses recorded in income statement (Note 19)	(66,121)	-	(66,121)
Fair value losses recorded in income statement (Note 20)	(1,631,002)	-	(1,631,002)
Movement in AC	-	(161,247)	(161,247)
Amortisation of premium, net of accretion of discount (Note 18)	(8,348)	-	(8,348)
Movement in accrued interest	8,636	(6,157)	2,479
Currency translation differences	(50,079)	-	(50,079)
At 30 June 2022	<u>21,399,776</u>	<u>325,644</u>	<u>21,725,420</u>

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NOTES TO THE FINANCIAL STATEMENTS**7. FINANCIAL ASSETS (CONT'D)****(c) Carrying value of financial instruments (cont'd)**

	FVTPL RM'000	AC RM'000	Total RM'000
At 1 July 2022	21,399,776	325,644	21,725,420
Purchases	5,062,525	-	5,062,525
Maturities	(775,500)	-	(775,500)
Disposals	(2,852,634)	-	(2,852,634)
Realised gains recorded in income statement (Note 19)	38,020	-	38,020
Fair value gains recorded in income statement (Note 20)	667,114	-	667,114
Movement in AC	-	400,392	400,392
Amortisation of premium, net of accretion of discount (Note 18)	(4,536)	-	(4,536)
Movement in accrued interest	4,139	2,145	6,284
Currency translation differences	17,991	-	17,991
At 30 June 2023	<u>23,556,895</u>	<u>728,181</u>	<u>24,285,076</u>

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NOTES TO THE FINANCIAL STATEMENTS**8. DERIVATIVE FINANCIAL INSTRUMENTS**

	Notional Principal RM'000	Fair value RM'000
2023		
Derivatives designated as fair value hedge:		
Derivative assets		
- Foreign currency forwards	49,578	154
Derivative liabilities		
- Foreign currency forwards	509,966	5,471
2022		
Derivatives designated as fair value hedge:		
Derivative assets		
- Foreign currency forwards	61,847	476
Derivative liabilities		
- Foreign currency forwards	542,192	1,362
	2023	2022
	RM'000	RM'000
Derivative assets maturing within 12 months	154	476
Derivative assets maturing after 12 months	-	-
	154	476
Derivative liabilities maturing within 12 months	5,471	1,362
Derivative liabilities maturing after 12 months	-	-
	5,471	1,362

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NOTES TO THE FINANCIAL STATEMENTS**8 . DERIVATIVE FINANCIAL INSTRUMENTS (CONT'D)****Fair value hedge**

Fair value hedges are used by the Company to protect against the changes in fair value of financial assets due to movements in the bond coupon rates and foreign exchange rates. The Company uses cross-currency interest rate swaps and foreign currency forwards to hedge against interest rate risk and foreign exchange risk of foreign corporate bonds and foreign equity securities.

The net gains and losses arising from fair value hedges during the financial year as follows:

	2023	2022
	RM'000	RM'000
Losses on hedging instruments	(46,612)	(14,898)
Gains/(losses) on hedged items attributable to the hedged risks	17,991	(50,079)
	<u>(28,621)</u>	<u>(64,977)</u>

9 . INSURANCE RECEIVABLES

	2023	2022
	RM'000	RM'000
Due premium including agents/brokers and reinsurers balances	52,426	60,685
Allowance for impairment (Note 32(a))	(1,703)	(1,542)
	<u>50,723</u>	<u>59,143</u>

The carrying amounts disclosed above approximate the fair values at the date of the statement of financial position, and are receivable within one year.

	2023	2022
	RM'000	RM'000
Gross amounts of recognised financial assets	123,143	131,510
Less: Gross amounts of recognised financial liabilities set off in the statement of financial position	(70,717)	(70,825)
	<u>52,426</u>	<u>60,685</u>
Allowance for impairment (Note 32(a))	(1,703)	(1,542)
Net amounts of financial assets presented in the statement of financial position	<u>50,723</u>	<u>59,143</u>

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NOTES TO THE FINANCIAL STATEMENTS**10 . OTHER RECEIVABLES**

	2023	2022
	RM'000	RM'000
Investment income receivables	9,573	7,835
Investment debtors	51,172	998
Other receivables	35,814	34,939
	<u>96,559</u>	<u>43,772</u>
Allowance for impairment (Note 32(a))	(108)	(82)
Total other receivables	<u><u>96,451</u></u>	<u><u>43,690</u></u>

The carrying amounts disclosed above approximate the fair values at the date of the statement of financial position, and are receivable within one year.

11 . SHARE CAPITAL

	2023		2022	
	No of shares '000	RM'000	No of shares '000	RM'000
Ordinary shares				
Issued and fully paid up:				
At 1 July/30 June	<u>200,000</u>	<u>200,000</u>	<u>200,000</u>	<u>200,000</u>

12 . RESERVES

The Company may distribute single tier exempt dividend to its shareholders out of its distributable retained earnings. Pursuant to Section 51(1) of the FSA, the Company is required to obtain BNM's written approval prior to declaring or paying any dividend.

Pursuant to the RBC Framework for Insurers, the Company shall not pay dividends if its Capital Adequacy Ratio position is less than its internal target capital level or if the payment of dividend would impair its Capital Adequacy Ratio position to below its internal target.

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NOTES TO THE FINANCIAL STATEMENTS**13 . INSURANCE CONTRACT LIABILITIES**

The analysis of life insurance contract liabilities and the movements are as follows:

	Gross		Re-insurance		Net	
	2023	2022	2023	2022	2023	2022
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
Provision for outstanding claims	337,208	249,747	(108,987)	(90,002)	228,221	159,745
Actuarial liabilities (Note 31)	11,536,641	11,303,433	54,647	62,715	11,591,288	11,366,148
Unallocated surplus	470,800	214,642	-	-	470,800	214,642
Net asset value attributable to unitholders (Note 34)	5,885,992	4,833,717	-	-	5,885,992	4,833,717
Insurance contract liabilities	<u>18,230,641</u>	<u>16,601,539</u>	<u>(54,340)</u>	<u>(27,287)</u>	<u>18,176,301</u>	<u>16,574,252</u>

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NOTES TO THE FINANCIAL STATEMENTS**13 . INSURANCE CONTRACT LIABILITIES (CONT'D)**

	Gross			Reinsurance			Net
	With DPF RM'000	Without DPF RM'000	Total RM'000	With DPF RM'000	Without DPF RM'000	Total RM'000	RM'000
At 30 June 2021	10,550,019	6,475,195	17,025,214	(985)	(45,915)	(46,900)	16,978,314
Change in non-economic assumptions and valuation methodology:							
Model and methodology	1,995	(142)	1,853	9,795	2,010	11,805	13,658
Mortality & total permanent disability assumptions	(67,711)	(48,601)	(116,312)	-	26,485	26,485	(89,827)
Hospitalisation & surgical benefit, hospitalisation income benefit and personal accident assumptions	-	196	196	-	(1)	(1)	195
Expense assumption	5,123	(3,412)	1,711	-	(5)	(5)	1,706
Lapse assumption	35,231	26,075	61,306	-	1,279	1,279	62,585
Other assumptions	(11)	(523)	(534)	-	1	1	(533)
Change in economic assumptions							
Malaysian Government Securities rate	-	(186,356)	(186,356)	-	(3,699)	(3,699)	(190,055)
Other assumptions	-	(42)	(42)	-	-	-	(42)
Projected change for inforce policies at 30 June 2021	(308,969)	231,473	(77,496)	(1,685)	(2,765)	(4,450)	(81,946)
Experience variance	(440,834)	25,180	(415,654)	1,320	(662)	658	(414,996)
Incurred but not reported reserves	4	(181)	(177)	-	-	-	(177)
Others - Education Malaysia Global Services inwards reinsurance	-	(565)	(565)	-	-	-	(565)
New business	8,544	57,612	66,156	-	2,086	2,086	68,242
Change in unprocessed unit reserves	-	(18,330)	(18,330)	-	-	-	(18,330)
Change in provision for outstanding claims	17,162	46,590	63,752	24	(14,570)	(14,546)	49,206
Change in net asset value attributable to unitholders	-	484,871	484,871	-	-	-	484,871
Change in unallocated surplus	(288,054)	-	(288,054)	-	-	-	(288,054)
At 30 June 2022	9,512,499	7,089,040	16,601,539	8,469	(35,756)	(27,287)	16,574,252

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NOTES TO THE FINANCIAL STATEMENTS**13 . INSURANCE CONTRACT LIABILITIES (CONT'D)**

	Gross			Reinsurance			Net
	With DPF RM'000	Without DPF RM'000	Total RM'000	With DPF RM'000	Without DPF RM'000	Total RM'000	RM'000
At 1 July 2022	9,512,499	7,089,040	16,601,539	8,469	(35,756)	(27,287)	16,574,252
Change in non-economic assumptions and valuation methodology:							
Model and methodology	-	12,416	12,416	12	(4,073)	(4,061)	8,355
Critical illnesses assumption	(1,767)	72	(1,695)	299	(43)	256	(1,439)
Hospitalisation & surgical benefit, hospitalisation income benefit and personal accident assumptions	-	(1,060)	(1,060)	-	(162)	(162)	(1,222)
Expense assumption	(2)	48	46	-	-	-	46
Lapse assumption		11,020	11,020	-	(1,691)	(1,691)	9,329
Other assumptions	(363)	(3,008)	(3,371)	-	(10)	(10)	(3,381)
Change in economic assumptions							
Malaysian Government Securities rate	-	147,571	147,571	-	1,940	1,940	149,511
Discount rate	(141,712)	-	(141,712)	(858)	-	(858)	(142,570)
Other assumptions	-	741	741	-	(1)	(1)	740
Projected change for inforce policies at 30 June 2022	(391,886)	237,872	(154,014)	(1,548)	(1,612)	(3,160)	(157,174)
Experience variance	239,283	18,155	257,438	428	(1,606)	(1,178)	256,260
Incurred but not reported reserves	216	5,917	6,133	-	-	-	6,133
Others - Education Malaysia Global Services inwards reinsurance	-	(39)	(39)	-	-	-	(39)
New business	10,785	86,331	97,116	1	856	857	97,973
Change in unprocessed unit reserves	-	2,618	2,618	-	-	-	2,618
Change in provision for outstanding claims	43,231	44,230	87,461	(274)	(18,711)	(18,985)	68,476
Change in net asset value attributable to unitholders	-	1,052,275	1,052,275	-	-	-	1,052,275
Change in unallocated surplus	256,158	-	256,158	-	-	-	256,158
At 30 June 2023	9,526,442	8,704,199	18,230,641	6,529	(60,869)	(54,340)	18,176,301

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NOTES TO THE FINANCIAL STATEMENTS**14 . DEFERRED TAXATION**

The movements in deferred tax assets and liabilities during the financial year are as follows:

	2023	2022
	RM'000	RM'000
At 1 July	(281,575)	(373,092)
Recognised in:		
Income statement (Note 24)	(116,604)	91,517
At 30 June	<u>(398,179)</u>	<u>(281,575)</u>
Current	466	75
Non-current	<u>(398,645)</u>	<u>(281,650)</u>
	<u>(398,179)</u>	<u>(281,575)</u>

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set-off current tax assets against current tax liabilities and when the deferred taxes relate to the same tax authority. The following amounts, determined after appropriate offsetting, are shown in the statement of financial position:

	2023	2022
	RM'000	RM'000
Deferred tax liabilities	(432,835)	(352,982)
Deferred tax assets	34,656	71,407
	<u>(398,179)</u>	<u>(281,575)</u>

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NOTES TO THE FINANCIAL STATEMENTS**14 . DEFERRED TAXATION (CONT'D)**

The components and movements of deferred tax assets and liabilities during the financial year prior to offsetting are as follows:

Deferred tax liabilities

	Unallocated surplus RM'000	Investment properties RM'000	Financial assets RM'000	Total RM'000
At 1 July 2021	(297,184)	(5,899)	(75,974)	(379,057)
Recognised in:				
Income statement	(48,895)	(160)	75,130	26,075
At 30 June 2022	<u>(346,079)</u>	<u>(6,059)</u>	<u>(844)</u>	<u>(352,982)</u>
At 1 July 2022	(346,079)	(6,059)	(844)	(352,982)
Recognised in:				
Income statement	(38,664)	(2)	(41,187)	(79,853)
At 30 June 2023	<u>(384,743)</u>	<u>(6,061)</u>	<u>(42,031)</u>	<u>(432,835)</u>

Deferred tax assets

	Investment properties RM'000	Financial assets RM'000	Others RM'000	Total RM'000
At 1 July 2021	4,223	253	1,489	5,965
Recognised in:				
Income statement	-	66,931	(1,489)	65,442
At 30 June 2022	<u>4,223</u>	<u>67,184</u>	<u>-</u>	<u>71,407</u>
At 1 July 2022	4,223	67,184	-	71,407
Recognised in:				
Income statement	-	(36,751)	-	(36,751)
At 30 June 2023	<u>4,223</u>	<u>30,433</u>	<u>-</u>	<u>34,656</u>

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NOTES TO THE FINANCIAL STATEMENTS**15 . INSURANCE PAYABLES**

	2023	2022
	RM'000	RM'000
Amount due to reinsurers and cedants	19,923	38,313
Amount due to agents	93,495	79,733
Amount due to insured	4,073,328	3,812,509
	<u>4,186,746</u>	<u>3,930,555</u>

The carrying amounts disclosed above approximate the fair values at the date of the statement of financial position, and are payable within one year.

	2023	2022
	RM'000	RM'000
Gross amounts of recognised financial liabilities	4,257,463	4,001,380
Less: Gross amounts of recognised financial assets set off in the statement of financial position	<u>(70,717)</u>	<u>(70,825)</u>
Net amounts of financial liabilities presented in the statement of financial position	<u>4,186,746</u>	<u>3,930,555</u>

16 . OTHER PAYABLES

	2023	2022
	RM'000	RM'000
Accruals	143,377	152,933
Investment creditors	25,476	18,932
Rental deposits	4,112	7,245
Other payables	23,634	30,673
	<u>196,599</u>	<u>209,783</u>

The carrying amounts disclosed above approximate the fair values at the date of the statement of financial position, and are payable within one year.

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NOTES TO THE FINANCIAL STATEMENTS**17 . SUBORDINATED NOTES**

	2023	2022
	RM'000	RM'000
RM300.0 million Tier 2 subordinated notes, at par (Note17(a))	300,000	300,000
Add: interest payable	4,652	4,652
	<u>304,652</u>	<u>304,652</u>
RM150.0 million Tier 2 subordinated notes, at par (Note17(b))	150,000	150,000
Add: interest payable	28	28
	<u>150,028</u>	<u>150,028</u>
RM150.0 million Tier 2 subordinated notes, at par (Note17(c))	150,000	150,000
Add: interest payable	30	30
	<u>150,030</u>	<u>150,030</u>
Total subordinated notes	<u>604,710</u>	<u>604,710</u>
Payable within 12 months	4,710	4,710
Payable after 12 months	600,000	600,000
	<u>604,710</u>	<u>604,710</u>

On 13 September 2019, the Company established the Subordinated Notes Programme or Subordinated Sukuk Programme with combine limit up to RM2.0 billion in nominal value to raise funds for general working capital and/or business operations purpose.

On 27 September 2019, the Securities Commission approved the application subject to certain operational terms and conditions being fulfilled.

The subordinated notes are unsecured liabilities and classified as Tier 2 capital under Risk-Based Capital Framework for Insurers.

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NOTES TO THE FINANCIAL STATEMENTS

17 . SUBORDINATED NOTES (CONT'D)

The following issuance are made thereunder:

- (a) On 3 February 2020, HLA completed its RM300.0 million subordinated notes issuance. The subordinated notes were issued for a period of 10 years on a 10 non-callable 5 basis with a coupon rate of 3.85% per annum.
- (b) On 28 December 2020, HLA issued subordinated notes of RM150.0 million nominal value with a tenure of 5 years at coupon rate of 3.45%.
- (c) On 28 December 2020, HLA issued subordinated notes of RM150.0 million nominal value with a tenure of 8 years at coupon rate of 3.70%.

Valuation techniques adopted

Pursuant to MFRS 13 Fair Value Measurement, the Company establishes a fair value hierarchy that categories into three levels of inputs to valuation techniques used to measure fair value as disclosed in Note 33.

- (i) There are no subordinated notes categorised under Level 1.
- (ii) Subordinated notes are included in Level 2 with carrying amount of RM561,015,089 (2022: RM559,810,692). The fair value of subordinated notes are estimated based on discounted cash flow model using a current yield curve appropriate for the remaining term to maturity.
- (iii) There are no subordinated notes categorise under Level 3.

18 . INVESTMENT INCOME

	2023	2022
	RM'000	RM'000
Interest income		
FVTPL financial assets	683,651	651,288
Deposits with financial institution	42,397	28,969
Policy loans and premium loans	9,123	12,952
Gross dividends		
FVTPL financial assets	269,884	215,295
Net expenses in investment properties	(2,669)	327
Accretion of discount, net of amortisation of premium		
FVTPL financial assets (Note 7(c))	(4,536)	(8,348)
	<u>997,850</u>	<u>900,483</u>

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NOTES TO THE FINANCIAL STATEMENTS**19 . REALISED GAINS AND LOSSES**

	2023	2022
	RM'000	RM'000
Property, plant and equipment		
Realised gains	145	-
Derivatives		
Realised losses	(42,181)	(22,286)
FVTPL financial assets		
Realised gains:		
Equity securities		
- quoted in Malaysia	6,209	-
- unquoted in Malaysia	9	-
Unit trusts/Reits		
- quoted in Malaysia	-	386
- unquoted in Malaysia	4,231	449
Corporate bonds		
- unquoted in Malaysia	48,234	-
Negotiable instrument of deposit		
- in Malaysia	6,649	-
Realised losses:		
Equity securities		
- quoted in Malaysia	-	(12,597)
- quoted outside Malaysia	(27,174)	(10,314)
- unquoted in Malaysia	-	(232)
Unit trusts/Reits		
- quoted in Malaysia	(138)	-
Corporate bonds		
- unquoted in Malaysia	-	(30,004)
- unquoted outside Malaysia	-	(10,696)
Negotiable instrument of deposit		
- in Malaysia	-	(3,113)
	<u>38,020</u>	<u>(66,121)</u>
Net realised losses	<u>(4,016)</u>	<u>(88,407)</u>

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NOTES TO THE FINANCIAL STATEMENTS**20 . FAIR VALUE GAINS AND LOSSES**

	2023	2022
	RM'000	RM'000
Fair value gains/(losses):		
Investment properties (Note 6)	20	2,000
Derivatives	(4,431)	7,388
FVTPL financial assets (Note 7(c))	667,114	(1,631,002)
	<u>662,703</u>	<u>(1,621,614)</u>

21 . FEES AND COMMISSION INCOME

	2023	2022
	RM'000	RM'000
Policyholder administration and investment management service	18,822	14,857
Reinsurance commission income	4,180	3,335
Surrender charges and other contract fees	735	666
	<u>23,737</u>	<u>18,858</u>

22 . OTHER OPERATING INCOME/(EXPENSES)-NET

	2023	2022
	RM'000	RM'000
Foreign exchange		
- Realised gains	21,102	60,737
- Unrealised gains/(losses)	17,999	(50,088)
Other operating income	11,101	9,893
	<u>50,202</u>	<u>20,542</u>

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NOTES TO THE FINANCIAL STATEMENTS**23 . MANAGEMENT EXPENSES**

	2023	2022
	RM'000	RM'000
Employee benefits expense (Note 23(a))	111,590	100,537
GMD/CEO and Directors' remuneration (Note 23(b))	5,617	5,336
Auditors' remuneration* :		
Statutory audit fees	469	383
MFRS 17 proactive assurance fee	1,540	-
Non-audit services	22	22
Depreciation of property, plant and equipment (Note 3)	3,905	3,880
Amortisation of intangible assets (Note 4)	2,906	3,095
Depreciation of right-of-use assets (Note 5)	2,052	2,065
Interest expense on lease liabilities	493	595
Impairment on receivables	187	161
Entertainment and travelling	979	716
EDP expenses	17,925	15,508
Other expenses	69,815	68,197
	<u>217,500</u>	<u>200,495</u>

* There was no indemnity given or insurance effected for the auditors of the Company during the financial year.

(a) Employee benefits expense

	2023	2022
	RM'000	RM'000
Wages, salaries and bonuses	94,302	91,021
Defined contribution retirement plan	14,336	14,600
Other employee benefits	2,952	(5,084)
	<u>111,590</u>	<u>100,537</u>

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NOTES TO THE FINANCIAL STATEMENTS**23 . MANAGEMENT EXPENSES (CONT'D)****(b) GMD/CEO and Directors' remuneration**

The total remuneration of the GMD/CEO and Directors are as follows:

	Salaries and other remunerations RM'000	Director fees RM'000	Estimated monetary value for benefits in-kind RM'000	Total RM'000
2023				
GMD/CEO:				
Loh Guat Lan:	4,166	-	721	4,887
Non-executive Directors:				
Shalet Marian	28	155	-	183
Sim Hong Kee	41	200	-	241
Koid Swee Lian	18	130	-	148
Dato' Ng Wan Peng	18	140	-	158
	105*	625	-	730
Total Directors' remuneration	4,271	625	721	5,617

* Directors' meeting allowance

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NOTES TO THE FINANCIAL STATEMENTS**23 . MANAGEMENT EXPENSES (CONT'D)****(b) GMD/CEO and Directors' remuneration (cont'd)**

The total remuneration of the GMD/CEO and Directors are as follows (cont'd):

	Salaries and other remunerations RM'000	Director fees RM'000	Estimated monetary value for benefits in-kind RM'000	Total RM'000
2022				
GMD/CEO:				
Loh Guat Lan:	3,955	-	693	4,648
Non-executive Directors:				
Shalet Marian	23	185	-	208
Sim Hong Kee	24	194	-	218
Koid Swee Lian	12	133	-	145
Dato' Ng Wan Peng	7	110	-	117
	66 *	622	-	688
Total Directors' remuneration	4,021	622	693	5,336

* Directors' meeting allowance

During the financial year, Directors and Officers of the Company are covered under the Directors' & Officers' Liability Insurance in respect of liabilities arising from acts committed in their capacity as, inter alia, Directors and Officers of the Company subject to the terms of the policy. The total amount of Directors' & Officers' Liability Insurance effected for the Directors & Officers of the Hong Leong Financial Group Berhad ("HLFG") Group was RM10 million. The total amount of premium paid for the Directors' & Officers' Liability Insurance by the HLF Group was RM71,250 (2022: RM84,550) and the apportioned amount of the said premium paid by the Company was RM5,291 (2022: RM6,593).

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NOTES TO THE FINANCIAL STATEMENTS**24 . TAXATION**

	Attributable to participating fund and unitholders RM'000	Attributable to shareholders' fund RM'000	Total RM'000
2023			
Current income tax:			
Current financial year	28,684	31,406	60,090
(Over)/under provision in prior years	(17)	251	234
	<u>28,667</u>	<u>31,657</u>	<u>60,324</u>
Deferred tax:			
Origination and reversal of temporary differences (Note 14)	50,807	65,797	116,604
	<u>79,474</u>	<u>97,454</u>	<u>176,928</u>
2022			
Current income tax:			
Current financial year*	42,730	34,765	77,495
Over provision in prior years	(187)	(2,962)	(3,149)
	<u>42,543</u>	<u>31,803</u>	<u>74,346</u>
Deferred tax:			
Origination and reversal of temporary differences (Note 14)	(111,592)	20,075	(91,517)
	<u>(69,049)</u>	<u>51,878</u>	<u>(17,171)</u>

* In order to support the Government's initiative to assist parties affected by the pandemic, for year of assessment ("YA") 2022, a special one-off tax ("Cukai Makmur") is imposed on non-micro, small and medium enterprise companies which generate high profits during the period of the pandemic. Chargeable income in excess of RM100.0 million is calculated based on the tax rate of 33% for YA 2022.

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24 . TAXATION (CONT'D)

The income tax for the Shareholders' fund is calculated based on the tax rate of 24% (2022: 24%) of the estimated assessable profit for the financial year. The income tax for the life fund is calculated based on the tax rate of 8% (2022: 8%) of the assessable investment income net of allowable deductions for the financial year. The taxes of the respective funds are disclosed in Note 34 to the financial statements.

In 2008, the Ministry of Finance has gazetted an order on the allowance of income tax set-off/credit for the tax charged on the surplus transferred from the Life fund to the Shareholders' fund with effect from year of assessment 2008 under Section 110B of the Income Tax Act, 1967.

A reconciliation of income tax expense applicable to surplus before taxation at the statutory income tax rate to income tax expense at the effective income tax rate of the Company is as follows:

	2023	2022
	RM'000	RM'000
Profit before taxation attributable to shareholders	<u>381,440</u>	<u>308,648</u>
Taxation at Malaysian statutory tax rate of 24%	91,545	74,076
Tax effects in respect of:		
Income not subject to tax	(42,004)	(36,434)
Expenses not deductible for tax purpose	72,599	19,529
Effect of difference in tax rate	(24,938)	(2,332)
Under/(over) provision in prior years	252	(2,961)
Tax expense for the financial year	<u><u>97,454</u></u>	<u><u>51,878</u></u>

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25 . DIVIDENDS

The amount of dividend declared and paid by the Company since the end of the previous financial year was as follows:

	2023	2022
	RM'000	RM'000
In respect of the financial year ended 30 June 2022:		
- Single-tier dividend of 15.0 sen per share	30,000	30,000

As at the date of the financial statements, the Directors have not recommended any final dividend to be paid for the financial year under review.

26 . EARNINGS PER SHARE

The basic earnings per share are calculated based on the profit for the financial year after taxation as stated below divided by the weighted average number of 200,000,000 (2022: 200,000,000) ordinary shares in issue during the financial year.

	2023	2022
	RM'000	RM'000
Net profit for the financial year	283,986	256,770

27 . CAPITAL COMMITMENTS

Capital expenditure approved by Directors but not provided for in the financial statements are as follows:

	2023	2022
	RM'000	RM'000
Authorised and contracted for:		
Property, plant and equipment	44	344
Intangible assets	2,520	3,194
	<u>2,564</u>	<u>3,538</u>

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NOTES TO THE FINANCIAL STATEMENTS

28 . RELATED PARTY DISCLOSURES

(a) Related parties and relationships

The related parties of, and their relationships with the Company are as follows:

Related Parties	Relationship
Hong Leong Company (Malaysia) Berhad ("HLCM")	Ultimate holding company
HLCM Capital Sdn Bhd, Hong Leong Share Registration Services Sdn Bhd, HL Management Co Sdn Bhd and Guoline Capital Assets Limited ("HLCM Capital Group")	Subsidiary companies of ultimate holding company
Malaysian Pacific Industries Berhad and its subsidiary and associated companies as disclosed in its financial statements ("MPI Group")	Subsidiaries and associated companies of ultimate holding company
GuocoLand (Malaysia) Berhad and its subsidiaries and associated companies as disclosed in its financial statements ("GLM Group")	Subsidiaries and associated companies of ultimate holding company
Guoco Group Limited and its subsidiary and associated companies as disclosed in its financial statements ("GGL Group")	Subsidiaries and associated companies of ultimate holding company
Hong Leong Industries Berhad and its subsidiaries and associated companies as disclosed in its financial statements ("HLI Group")	Subsidiaries and associated companies of ultimate holding company
Hume Industries Berhad and its subsidiaries and associated companies as disclosed in its financial statements ("Hume Group")	Subsidiaries and associated companies of ultimate holding company

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NOTES TO THE FINANCIAL STATEMENTS**28 . RELATED PARTY DISCLOSURES (CONT'D)****(a) Related parties and relationships (cont'd)**

The related parties of, and their relationships with the Company are as follows: (cont'd)

<u>Related Parties</u>	<u>Relationship</u>
Hong Leong Financial Group Berhad ("HLFG")	Penultimate holding company
Subsidiaries and associated companies of HLFG as disclosed in its financial statements ("HLFG Group")	Subsidiaries and associated companies of penultimate holding company
HLA Holdings Sdn Bhd ("HLAH")	Immediate holding company
Subsidiaries companies of HLAH as disclosed in its financial statements ("HLAH Group")	Subsidiary companies of holding company
MSIG Insurance (Malaysia) Bhd	Associated company of holding company
Key Management Personnel	The key management personnel of the Company consists of: <ul style="list-style-type: none">- All Directors of the Company- Key management personnel of the Company who make certain critical decisions in relation to the strategic direction of the Company
Related parties of key management personnel (deemed as related to the Company)	(i) Close family members and dependents of key management personnel (ii) Entities that are controlled, jointly controlled or significant influenced by, or for which significant voting power in such entity resides with, directly or indirectly by key management personnel or its close family members

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NOTES TO THE FINANCIAL STATEMENTS**28 . RELATED PARTY DISCLOSURES (CONT'D)****(b) Related party transactions and balances**

In additional to the transactions detailed elsewhere in the financial statements, the Company had the following transactions and balances with related parties during the financial year:

	Immediate holding company RM'000	Ultimate holding company RM'000	Penultimate holding company RM'000	Other related parties RM'000
2023				
Assets				
Financial assets	-	-	72,263	129,471
Receivables	-	-	13	1,253
Short term placements and fixed deposits	-	-	-	37,286
Cash and cash equivalents	-	-	-	627,938
	<u>-</u>	<u>-</u>	<u>72,276</u>	<u>795,948</u>
Liabilities				
Payables	-	3	-	4,738
	<u>-</u>	<u>3</u>	<u>-</u>	<u>4,738</u>
2022				
Assets				
Financial assets	-	-	75,700	131,940
Receivables	-	-	-	9,279
Short term placements and fixed deposits	-	-	-	31
Cash and cash equivalents	-	-	-	227,779
	<u>-</u>	<u>-</u>	<u>75,700</u>	<u>369,029</u>
Liabilities				
Payables	-	3	6	6,741
	<u>-</u>	<u>3</u>	<u>6</u>	<u>6,741</u>

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NOTES TO THE FINANCIAL STATEMENTS**28 . RELATED PARTY DISCLOSURES (CONT'D)****(b) Related party transactions and balances (cont'd)**

	Immediate holding company RM'000	Ultimate holding company RM'000	Penultimate holding company RM'000	Other related parties RM'000
2023				
Income				
Gross premium received/ receivable	-	-	187	46,386
Management and professional fee income	-	-	-	3,555
Rental income	-	-	-	6,758
Service support fees	206	-	-	3,348
Interest income	-	-	-	16,838
Dividend income	-	-	-	86,355
Rebates	-	-	-	16,619
	<u>206</u>	<u>-</u>	<u>187</u>	<u>179,859</u>
Expenditure				
Gross premium paid	-	-	-	(345)
Commission paid/payable	-	-	-	(20,408)
Management and professional fee paid/payable	-	-	(1,927)	(1,588)
Authorised depository fees	-	-	-	(1)
Brokerage fees	-	-	-	(1,124)
Credit card merchant fees	-	-	-	(12,616)
Security guard services	-	-	-	(948)
Service support fees paid	-	-	-	(3,443)
Rental expenses	-	-	(229)	(18)
Bank charges	-	-	-	(386)
Arranger Fees	-	-	-	(60)
Building management fees	-	-	-	(422)
	<u>-</u>	<u>-</u>	<u>(2,156)</u>	<u>(41,359)</u>

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NOTES TO THE FINANCIAL STATEMENTS**28 . RELATED PARTY DISCLOSURES (CONT'D)****(b) Related party transactions and balances (cont'd)**

	Immediate holding company RM'000	Ultimate holding company RM'000	Penultimate holding company RM'000	Other related parties RM'000
2022				
Income				
Gross premium received/ receivable	-	-	49	32,995
Management and professional fee income	-	-	-	2,820
Rental income	-	-	-	8,461
Service support fees	196	-	-	2,487
Interest income	-	-	194	6,693
Dividend income	-	-	-	54,641
Rebates	-	-	-	12,459
	<u>196</u>	<u>-</u>	<u>243</u>	<u>120,556</u>
Expenditure				
Gross premium paid	-	-	-	(326)
Commission paid/payable	-	-	-	(23,015)
Management and professional fee paid/payable	-	-	(1,558)	(1,603)
Authorised depository fee	-	-	-	(1)
Brokerage fee	-	-	-	(448)
Credit card merchant fees	-	-	-	(13,323)
Security guard services	-	-	-	(898)
Service support fees paid	-	-	-	(3,322)
Rental expenses	-	-	(229)	(24)
Bank charges	-	-	-	(391)
Custody Fees	-	-	-	(45)
Facility Fees	-	-	-	(60)
Building management fees	-	-	-	(400)
	<u>-</u>	<u>-</u>	<u>(1,787)</u>	<u>(43,856)</u>

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NOTES TO THE FINANCIAL STATEMENTS**28 . RELATED PARTY DISCLOSURES (CONT'D)****(b) Related party transactions and balances (cont'd)**

The above transactions are transacted in the normal course of business of the Company based on agreed terms and conditions.

The above significant related party transactions are primarily with related parties domiciled in Malaysia.

(c) Compensation of key management personnel

The remuneration of Directors and other members of key management during the financial year was as follows:

	2023	2022
	RM'000	RM'000
Wages, salaries and bonuses	16,935	13,576
Defined contribution retirement plan	2,234	2,192
Other employee benefits	1,505	800
Directors' fees	625	622
	<u>21,299</u>	<u>17,190</u>
	RM'000	RM'000
Included in the total key management personnel are: GMD/CEO and Directors' remuneration (Note 23(b))	<u>5,617</u>	<u>5,336</u>

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NOTES TO THE FINANCIAL STATEMENTS

29 . RISK MANAGEMENT FRAMEWORK

The Company's risk management framework is based on the Enterprise Risk Management ("ERM") approach. The ERM Framework provides a systematic approach to identify, evaluate, monitor and report significant risks. Significant risks include capital adequacy, solvency, market, interest rate, credit, insurance, operational, compliance, technology and strategic risks amongst others.

The ERM Framework also fosters an operating environment that:

- (i) manages the Company's risk exposure to potential earnings and capital volatility; and
- (ii) optimises stakeholder (i.e. policyholders, shareholders, regulators, etc.) value.

Thus, the Company is able to measure and manage the portfolio of risks in a harmonised, consistent and holistic manner with a better understanding on the relationship among capital, risk and return measures.

Risk Management Department and Compliance Department keep the Senior Management and GBRMC abreast of developments in the Company's risk profiles alongside new, emerging and significant risks that require attention and/or action plans.

Capital Management

The Capital Management Plan outlines the risk exposures and strategies for the Senior Management to take proactive steps to conserve or consolidate the capital position.

Regular stress and scenario testing including reverse stress testing is undertaken as a proactive measure in monitoring and managing the capital position. The stress and scenario testing results are discussed at Asset-Liability Committee ("ALCO") and communicated to GBRMC and HLA Board of Directors.

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NOTES TO THE FINANCIAL STATEMENTS

29 . RISK MANAGEMENT FRAMEWORK (CONT'D)

Risk Governance Structure

The Company adopts the Three Lines of Defence model as a means to ensure good and effective governance structure is in place.

- (a) First line of defence: Under the leadership of the Chief Executive Officer, all departments are responsible and accountable for the effective and timely implementation of action plans. The monthly Executive Committee ("EXCO") meetings foster the growth of a robust risk culture via open and regular communication among relevant parties.
- (b) Second line of defence: Risk Management Department, as a risk oversight department, is tasked not only to formulate and continuously improve upon the Risk Management Policy and Framework but to also promote risk awareness amongst Senior Management and/or line managers via regular meetings. Compliance Department contributes to the determination of compliance risk measurement and assessment and the development of appropriate procedures for controlling identified compliance risks.
- (c) Third line of defence: Internal Audit Department performs independent and regular reviews on the Company's internal control systems and Risk Management Policy and Framework.

30 . REGULATORY CAPITAL REQUIREMENTS

The capital structure of the Company as at the date of the statement of financial position, consisting of all funds as prescribed under the RBC Framework is provided below:

	2023	2022
	RM'000	RM'000
Eligible Tier 1 capital		
- Share capital (paid up) (Note 11)	200,000	200,000
- Reserves	4,414,348	4,059,157
Eligible Tier 2 capital		
- Eligible reserves	540,000	570,000
Deductions	(11,745)	(39,367)
	<u>5,142,603</u>	<u>4,789,790</u>

The Company has met the minimum capital requirements specified in the RBC Framework for the financial year ended 2023 and 2022.

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NOTES TO THE FINANCIAL STATEMENTS**31 . INSURANCE RISK**

Insurance risk refers to the fluctuations in the timing, frequency and/or severity of the insured event, relative to the expectations of the Company at the time of underwriting.

The principal risk that the Company faces is the uncertainty over the benefit payments which may cause the valuation of the life insurance liabilities to be insufficient.

The Company has in place policies in managing insurance risk. These include monitoring of actual experience and using reinsurance to limit potential losses.

The distribution of life insurance liabilities by types of contracts gross and net of reinsurance is as follows:

	Gross			Reinsurance			Net of reinsurance		
	With DPF	Without DPF	Total	With DPF	Without DPF	Total	With DPF	Without DPF	Total
	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000	RM'000
2023									
Whole Life	2,091,876	459,919	2,551,795	4,439	13,807	18,246	2,096,315	473,726	2,570,041
Endowment	3,836,189	516,500	4,352,689	1,225	15	1,240	3,837,414	516,515	4,353,929
Term	247,620	333,722	581,342	671	24,336	25,007	248,291	358,058	606,349
Accident and health	7,226	46,407	53,633	-	9,127	9,127	7,226	55,534	62,760
Annuity	469,163	10,148	479,311	-	(10)	(10)	469,163	10,138	479,301
Others	2,298,847	1,219,024	3,517,871	1,430	(393)	1,037	2,300,277	1,218,631	3,518,908
	8,950,921	2,585,720	11,536,641	7,765	46,882	54,647	8,958,686	2,632,602	11,591,288

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NOTES TO THE FINANCIAL STATEMENTS**31 . INSURANCE RISK (CONT'D)**

The distribution of life insurance liabilities by types of contracts gross and net of reinsurance is as follows (cont'd):

	Gross			Reinsurance			Net of reinsurance		
	With DPF RM'000	Without DPF RM'000	Total RM'000	With DPF RM'000	Without DPF RM'000	Total RM'000	With DPF RM'000	Without DPF RM'000	Total RM'000
2022									
Whole Life	2,177,099	396,112	2,573,211	5,041	12,930	17,971	2,182,140	409,042	2,591,182
Endowment	3,768,403	418,617	4,187,020	1,840	1,015	2,855	3,770,243	419,632	4,189,875
Term	401,663	372,653	774,316	794	25,385	26,179	402,457	398,038	800,495
Accident and health	7,872	14,969	22,841	-	10,954	10,954	7,872	25,923	33,795
Annuity	478,450	7,303	485,753	-	(10)	(10)	478,450	7,293	485,743
Others	2,402,881	857,411	3,260,292	1,755	3,011	4,766	2,404,636	860,422	3,265,058
	9,236,368	2,067,065	11,303,433	9,430	53,285	62,715	9,245,798	2,120,350	11,366,148

As all of the business is local business written in Malaysia, the entire insurance liabilities are denominated in Malaysian Ringgit.

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NOTES TO THE FINANCIAL STATEMENTS

31 . INSURANCE RISK (CONT'D)

Key assumptions

The valuation of life insurance liabilities is based on actuarial valuation method and assumptions pursuant to the requirements stated in the document "Risk-Based Capital Framework for Insurers" issued by Bank Negara Malaysia in April 2007 and revised in December 2018.

The key assumptions to which the determination of liabilities is particularly sensitive are as follows:

- Mortality rates

Mortality rates refer to the rates at which death occurs. Generally, mortality assumptions are derived based on the Company's latest own experience. Mortality rates could impact on the Company's financial condition if it turns out to be more adverse than assumed.

- Morbidity rates

Morbidity rates include incidence rates of sickness, critical illness and disability. Generally, morbidity assumptions for sickness and critical illness are derived based on the reinsurer's risk rates, while morbidity rates for disability are derived with reference to common industry practice, adjusted to reflect the Company's latest own experience. Higher than expected morbidity rates would adversely impact the Company's financial condition.

- Discount rates

Insurance liabilities are discounted using discount rates determined in accordance to the Risk-Based Capital Framework for Insurers in order to determine the present value of liabilities. Discount rates could impact on the Company's financial condition if it turns out to be lower than assumed.

- Lapse, Surrender, Partial Withdrawal and Premium Holiday rates ("Lapse and Surrender")

They refer to the rates of termination, surrender, partial withdrawal of unit values and premium holiday of insurance contracts. Generally, these rates are derived based on the Company's latest actual experience. Lapse, surrender, partial withdrawal and premium holiday rates could impact on the Company's financial condition if the rates turn out to be more adverse than assumed.

- Expense assumption

Insurance liabilities include provision for future expenses using best estimate expense assumption based on the Company's latest experience. Higher than assumed expenses could have adverse impact on the Company's financial condition.

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NOTES TO THE FINANCIAL STATEMENTS

31 . INSURANCE RISK (CONT'D)

Sensitivities

Sensitivity analysis provides an assessment of plausible adverse events that could impact the financial condition of the Company. It enhances the understanding of the financial vulnerability towards key risks.

The analysis below is performed for reasonably possible movements in key assumptions with all other assumptions held constant. The correlation of assumptions may have a material effect in determining the ultimate claim liabilities, but to demonstrate the impact due to change in assumption, the assumption was changed on an individual basis. It should be noted that movements in these assumptions are non-linear.

Sensitivity analysis produced is based on parameters set out below:

	Change in assumption	Impact on gross liabilities	Impact on net liabilities	Impact on profit after tax/equity
	%	RM'000	RM'000	RM'000
2023				
Mortality and morbidity	+ 10	236,144	196,514	(155,886)
Mortality and morbidity	- 10	(219,615)	(181,186)	143,780
Discount rate	- 0.5	295,629	297,994	(129,664)
Expenses	+ 10	49,352	49,002	(28,124)
Lapse and surrender	+ 10	(14,868)	(17,546)	(2,144)
Lapse and surrender	- 10	14,343	17,147	3,199
2022				
Mortality and morbidity	+ 10	197,253	160,001	(124,405)
Mortality and morbidity	- 10	(169,784)	(132,655)	102,394
Discount rate	- 0.5	347,794	351,091	(100,681)
Expenses	+ 10	52,682	52,527	(26,287)
Lapse and surrender	+ 10	(19,477)	(22,309)	(7,977)
Lapse and surrender	- 10	18,306	22,179	9,603

There is no material change to the method and key assumptions used for the sensitivity assessment from previous period.

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NOTES TO THE FINANCIAL STATEMENTS

32 . FINANCIAL RISKS

The Company is exposed to a range of financial risks, including credit risk, liquidity risk and market risk.

The responsibility for formulation, establishment and approval of investment policies rests with the Board of Directors as reported in the corporate governance framework in the Directors' Report. The deployment and execution of the investment policies is delegated to the Investment Committee ("IC") in which the members are appointed by the Board of Directors.

The IC monitors scope of HLA's investments and establishes proper investment policies and guidelines that reflect the HLA's business objective, strategies and risk appetite.

Risk limits are in place at various levels and are monitored to ensure compliance with the Company's investment principles and philosophy. Sensitivity and stress tests are carried out on a regular basis to assess the resilience of the investment portfolios and the impact on the Company's solvency.

(a) Credit risk

Credit risk is the risk of loss due to inability or unwillingness of a counterparty to service its debt obligations. The credit risk and investment activities are monitored regularly with respect to single customer limit, sectorial exposure, credit rating and residual maturity, in accordance with the investment guidelines and limits approved by the Board of Directors and the authorities.

At the date of the statement of financial position, the credit exposure is within the investment guidelines and limits approved by the Board of Directors and the authorities. The maximum exposure to credit risk is the carrying amount as stated in the financial statements.

There were no significant changes to the credit risk management of the Company.

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NOTES TO THE FINANCIAL STATEMENTS**32 . FINANCIAL RISKS (CONT'D)****(a) Credit risk (cont'd)****Credit exposure**

The table below shows the maximum exposure to credit risk for the components on the statements of financial position. The maximum exposure is shown at gross, before the effect of mitigation through the use of master netting or collateral agreements.

	Insurance and Shareholders' Funds RM'000	Investment- Linked Funds RM'000	Total RM'000
2023			
HFT financial assets	18,365,420	5,191,475	23,556,895
AC financial assets	635,860	92,321	728,181
Derivative assets	119	35	154
Reinsurance assets	54,340	-	54,340
Insurance receivables	50,723	-	50,723
Other receivables *	62,608	31,291	93,899
Cash and balances	625,732	578,625	1,204,357
	<u>19,794,802</u>	<u>5,893,747</u>	<u>25,688,549</u>
2022			
HFT financial assets	16,837,247	4,562,529	21,399,776
AC financial assets	316,570	9,074	325,644
Derivative assets	375	101	476
Reinsurance assets	27,287	-	27,287
Insurance receivables	59,143	-	59,143
Other receivables *	37,567	3,466	41,033
Cash and balances	1,366,439	229,735	1,596,174
	<u>18,644,628</u>	<u>4,804,905</u>	<u>23,449,533</u>

* Other receivables as at 30 June 2023 and 30 June 2022 excluded sundry deposits & prepayments of 2023: RM2,552,296 (2022: RM2,657,310).

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NOTES TO THE FINANCIAL STATEMENTS**32 . FINANCIAL RISKS (CONT'D)****(a) Credit risk (cont'd)****Credit exposure by credit rating**

The below tabulation provides the breakdown of the Company's financial assets (excluding financial assets classified as non-current assets held-for-sale) in relation to credit risk exposure:

	Neither past-due nor impaired				Not subject to credit risk RM'000	Total RM'000
	Investment grade			Not rated RM'000		
	AAA to AA RM'000	A RM'000	BBB to BB RM'000			
2023						
FVTPL financial assets	8,616,904	131,514	9,279	8,846,776	5,952,422	23,556,895
AC financial assets	452,235	-	-	275,946	-	728,181
Derivatives	154	-	-	-	-	154
Reinsurance assets	5,814	3,846	-	44,680	-	54,340
Insurance receivables	-	-	-	50,723	-	50,723
Other receivables *	-	-	-	93,899	-	93,899
Cash and cash equivalents	1,203,859	396	-	102	-	1,204,357
	<u>10,278,966</u>	<u>135,756</u>	<u>9,279</u>	<u>9,312,126</u>	<u>5,952,422</u>	<u>25,688,549</u>

* Other receivables as at 30 June 2023 excluded sundry deposits & prepayments of RM2,552,296.

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NOTES TO THE FINANCIAL STATEMENTS**32 . FINANCIAL RISKS (CONT'D)****(a) Credit risk (cont'd)****Credit exposure by credit rating (cont'd)**

The below tabulation provides the breakdown of the Company's financial assets (excluding financial assets classified as non-current assets held-for-sale) in relation to credit risk exposure: (cont'd)

	Neither past-due nor impaired				Not subject to credit risk RM'000	Total RM'000
	Investment grade			Not rated RM'000		
	AAA to AA RM'000	A RM'000	BBB to BB RM'000			
2022						
FVTPL financial assets	7,627,581	124,237	9,047	8,117,039	5,521,872	21,399,776
AC financial assets	9,105	-	-	316,539	-	325,644
Derivatives	476	-	-	-	-	476
Reinsurance assets	5,577	9,639	-	12,071	-	27,287
Insurance receivables	-	-	-	59,143	-	59,143
Other receivables *	-	-	-	41,033	-	41,033
Cash and cash equivalents	1,595,619	390	-	165	-	1,596,174
	9,238,358	134,266	9,047	8,545,990	5,521,872	23,449,533

* Other receivables as at 30 June 2022 excluded sundry deposits & prepayments of RM2,657,310.

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NOTES TO THE FINANCIAL STATEMENTS**32 . FINANCIAL RISKS (CONT'D)****(a) Credit risk (cont'd)****Reconciliation of allowance account**

A reconciliation of the allowance for impairment losses for insurance receivables and other receivables are as follows:

	Insurance receivables RM'000	Other receivables RM'000	Total RM'000
At 1 July 2021	1,399	64	1,463
Charge for the financial year	143	18	161
At 30 June 2022	<u>1,542</u>	<u>82</u>	<u>1,624</u>
At 1 July 2022	1,542	82	1,624
Charge for the financial year	161	26	187
At 30 June 2023	<u>1,703</u>	<u>108</u>	<u>1,811</u>

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NOTES TO THE FINANCIAL STATEMENTS

32 . FINANCIAL RISKS (CONT'D)

(a) Credit risk (cont'd)

Collateral

Credit risk is mitigated by entering into collateral agreements.

(b) Liquidity risk

Liquidity risk refers to inability of the Company to meet its financial obligations as and when they fall due. Monitoring of Liquidity Coverage Ratio and contingent funding plan (to be implemented by 1 October 2022) are in place as tools to monitor and manage liquidity risk. In addition, a large proportion of the Company's investible funds are in fixed and call deposits, other money market instruments and other high quality liquid assets such as Malaysian Government Securities. Should there be any abnormal and unexpected cash outflow required, it is expected that the Company would still able to meet its obligation.

The Company endeavors to manage the maturity profiles of these financial instruments to meet financial obligations and working capital requirements.

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NOTES TO THE FINANCIAL STATEMENTS**32 . FINANCIAL RISKS (CONT'D)****(b) Liquidity risk (cont'd)****Maturity profile of financial assets**

The table below analyses the carrying amount of financial assets (excluding financial assets classified as non-current assets held-for-sale) based on the remaining contractual maturities:

	Carrying value RM'000	Up to 1 year RM'000	1 to 5 years RM'000	Over 5 years RM'000	No maturity date RM'000	Total RM'000
2023						
FVTPL financial assets	23,556,895	854,328	4,658,936	12,091,208	5,952,423	23,556,895
AC financial assets	728,181	728,181	-	-	-	728,181
Derivative assets	154	154	-	-	-	154
Reinsurance assets	54,340	54,340	-	-	-	54,340
Insurance receivables	50,723	50,723	-	-	-	50,723
Other receivables *	93,899	93,899	-	-	-	93,899
Cash and cash equivalents	1,204,357	1,204,357	-	-	-	1,204,357
Total financial assets	25,688,549	2,985,982	4,658,936	12,091,208	5,952,423	25,688,549

* Other receivables as at 30 June 2023 excluded sundry deposits & prepayments of RM2,552,296.

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NOTES TO THE FINANCIAL STATEMENTS**32 . FINANCIAL RISKS (CONT'D)****(b) Liquidity risk (cont'd)****Maturity profile of financial assets (cont'd)**

The table below analyses the carrying amount of financial assets (excluding financial assets classified as non-current assets held-for-sale) based on the remaining contractual maturities: (cont'd)

	Carrying value RM'000	Up to 1 year RM'000	1 to 5 years RM'000	Over 5 years RM'000	No maturity date RM'000	Total RM'000
2022						
FVTPL financial assets	21,399,776	804,867	3,810,516	11,262,520	5,521,873	21,399,776
AC financial assets	325,644	320,105	5,539	-	-	325,644
Derivative assets	476	476	-	-	-	476
Reinsurance assets	27,287	27,287	-	-	-	27,287
Insurance receivables	59,143	59,143	-	-	-	59,143
Other receivables *	41,033	41,033	-	-	-	41,033
Cash and cash equivalents	1,596,174	1,596,174	-	-	-	1,596,174
Total financial assets	23,449,533	2,849,085	3,816,055	11,262,520	5,521,873	23,449,533

* Other receivables as at 30 June 2022 excluded sundry deposits & prepayments of RM2,657,310.

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NOTES TO THE FINANCIAL STATEMENTS**32 . FINANCIAL RISKS (CONT'D)****(b) Liquidity risk (cont'd)****Maturity profile of financial liabilities**

The table below shows the contractual undiscounted cash flows payable for financial liabilities (excluding financial liabilities classified as liabilities directly associated with assets classified as held-for-sale) of the Company based on the remaining contractual maturities:

	Carrying value RM'000	Up to 1 year RM'000	1 to 5 years RM'000	Over 5 years RM'000	Total RM'000
2023					
Insurance contract liabilities:					
-With DPF	9,526,444	1,382,529	2,879,268	12,704,810	16,966,607
-Without DPF	8,704,197	6,339,392	1,075,255	4,413,607	11,828,254
Insurance payables	4,186,746	4,186,746	-	-	4,186,746
Other payables	196,599	196,599	-	-	196,599
Lease liabilities	8,788	2,035	5,466	1,287	8,788
Derivative liabilities	5,471	5,471	-	-	5,471
Subordinated notes	604,710	16,640	226,125	475,819	718,584
Total financial liabilities	<u>23,232,955</u>	<u>12,129,412</u>	<u>4,186,114</u>	<u>17,595,523</u>	<u>33,911,049</u>

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NOTES TO THE FINANCIAL STATEMENTS**32 . FINANCIAL RISKS (CONT'D)****(b) Liquidity risk (cont'd)****Maturity profile of financial liabilities (cont'd)**

The table below shows the contractual undiscounted cash flows payable for financial liabilities (excluding financial liabilities classified as liabilities directly associated with assets classified as held-for-sale) of the Company based on the remaining contractual maturities: (cont'd)

	Carrying value RM'000	Up to 1 year RM'000	1 to 5 years RM'000	Over 5 years RM'000	Total RM'000
2022					
Insurance contract liabilities:					
-With DPF	9,512,501	1,107,412	2,987,442	12,083,695	16,178,549
-Without DPF	7,089,038	5,227,613	895,848	3,989,905	10,113,366
Insurance payables	3,930,555	3,930,555	-	-	3,930,555
Other payables	209,783	209,783	-	-	209,783
Lease liabilities	7,873	1,751	5,415	707	7,873
Derivative liabilities	1,362	1,362	-	-	1,362
Subordinated notes	604,710	16,547	231,377	492,935	740,859
Total financial liabilities	<u>21,355,822</u>	<u>10,495,023</u>	<u>4,120,082</u>	<u>16,567,242</u>	<u>31,182,347</u>

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NOTES TO THE FINANCIAL STATEMENTS

32 . FINANCIAL RISKS (CONT'D)

(b) Liquidity risk (cont'd)

Maturity profile of financial liabilities (cont'd)

For insurance contract liabilities, maturity profiles are estimated based on projected net cash outflows from the recognised insurance liabilities.

Investment-linked liabilities are repayable or transferable on demand and are included under the "up to 1 year" column. Repayments which are subject to notice are treated as if notice were to be given immediately.

(c) Market risk

Market risk is the risk of losses owing to changes in fair value of assets or financial instruments. The market risk factors are primarily volatility in foreign exchange rates (currency risk), market interest rates (interest rate risk) and market prices (price risk). The change in market price may be caused by factor(s) specific to the individual instrument or its issuer or factor(s) affecting all instruments traded in the market.

The segmentation of product liabilities facilitates an effective market risk analysis. The Company adopts prudent investment policies and strategies to mitigate adverse market risks. The investment policies guide the strategies on asset mix, asset quality, sector mix, currency mix, interest rate risk exposure and liquidity targets.

(i) Currency risk

Currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Company's main exposure to foreign currency risk arises from its foreign investments. The foreign exchange management policy aims to minimise its exposure arising from currency movements. Derivative financial instruments held are solely for purpose of managing foreign currency risk and are classified as financial assets and financial liabilities.

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NOTES TO THE FINANCIAL STATEMENTS**32 . FINANCIAL RISKS (CONT'D)****(c) Market risk (cont'd)****(i) Currency risk (cont'd)**

The following are the carrying amounts of the financial assets that are denominated in currencies other than the functional currency of the Company:

	Financial assets RM'000
2023	
Singaporean dollar	52,746
US dollar	9,565
Australian dollar	66
Euro	1
Hong Kong dollar	450,548
Great Britain pound	1
Total	<u>512,927</u>
2022	
Singaporean dollar	46,237
US dollar	9,373
Australian dollar	65
Euro	1
Hong Kong dollar	432,212
Great Britain pound	1
Total	<u>487,889</u>

The financial liabilities of the Company are all denominated in Ringgit Malaysia.

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NOTES TO THE FINANCIAL STATEMENTS**32 . FINANCIAL RISKS (CONT'D)****(c) Market risk (cont'd)****(i) Currency risk (cont'd)**

The following table demonstrates the sensitivity to a reasonably possible change in currency rates for all currencies other than the functional currency stated above, with all other variables held constant showing the impact on the Company's profit after tax and equity. The correlation of variables will have a significant effect in determining the ultimate impact on currency risk, but to demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are non-linear.

		Impact on profit after tax/equity *
		RM'000
2023		
Change in currency rates:		
Singaporean dollar	+ 5%	(69)
US dollar	+ 5%	(94)
Hong Kong dollar	+ 5%	(682)
Singaporean dollar	- 5%	69
US dollar	- 5%	94
Hong Kong dollar	- 5%	682
2022		
Change in currency rates:		
Singaporean dollar	+ 5%	(89)
US dollar	+ 5%	(92)
Hong Kong dollar	+ 5%	(669)
Singaporean dollar	- 5%	89
US dollar	- 5%	92
Hong Kong dollar	- 5%	669

* Impact on equity reflects adjustments for tax, when applicable.

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NOTES TO THE FINANCIAL STATEMENTS

32 . FINANCIAL RISKS (CONT'D)

(c) Market risk (cont'd)

(ii) Interest rate risk

Interest rate risk is the risk that value or future cash flows of a financial instrument will fluctuate because of changes in market interest rate. Investment activities and insurance business are inherently exposed to interest rate risk. This risk arises due to differences in pricing or tenure of investments and liabilities. For the insurance business, interest rate risk is managed by limiting the interest rate guarantees that are embedded in the insurance plans. The interest rate risk is also managed through setting the appropriate asset allocation reflecting the liability profile and the availability of suitable instrument in the investment market. The nature of the participating fund gives the Company the flexibility to adjust the policyholders' bonuses or dividends.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, showing the impact on the Company's profit after tax and equity. The correlation of variables will have a significant effect in determining the ultimate impact on interest rate risk. To demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are non-linear.

	Impact on profit after tax/equity*	
	2023 RM'000	2022 RM'000
Change in interest rate:		
+ 100 basis point	(266,103)	(241,839)
- 100 basis point	300,786	276,293

* Impact on equity reflects adjustments for tax, when applicable.

The above impact arose from investments in fixed income securities which are classified as financial assets. The impact arising from changes in interest rate risk to fixed income securities of the insurance contracts with DPF are retained in the insurance contract liabilities. Investment in unit trusts are insensitive to interest rate risk.

The method used to derive sensitivity information and significant variables did not change from the previous reporting period.

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NOTES TO THE FINANCIAL STATEMENTS

32 . FINANCIAL RISKS (CONT'D)

(c) Market risk (cont'd)

(iii) Price risk

The Company's price risk exposure relates to financial assets and liabilities, whose values will fluctuate as a result of the change in market price. Such investment securities are subject to price risk due to changes in market values of instruments arising either from factors specific to the individual instruments or their issuers or factors affecting all instruments traded in the market.

The Company has acknowledged the inherent risk of investing in equities. Management is guided with investment policies that are approved by the Board in monitoring equity exposure and compliance with operational controls. In addition, the Investment Committee, at its bi-monthly meeting, discusses the economic and market outlook, reviews transactions and deliberates on equity allocation. The nature of the participating fund gives the Company the flexibility to adjust the policyholders' bonuses or dividends.

The following table demonstrates the sensitivity to a reasonably possible change in the fair values of the equity investments, with all other variables held constant showing the impact on the Company's equity. The correlation of variables will have a significant effect in determining the ultimate impact on price risk. To demonstrate the impact due to changes in variables, variables had to be changed on an individual basis. It should be noted that movements in these variables are non-linear.

	Impact on profit after tax/equity*	
	2023	2022
	RM'000	RM'000
Change in equity market price:		
+ 20%	97,197	88,017
- 20%	(97,197)	(88,017)

* Impact on equity reflects adjustments for tax, when applicable.

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NOTES TO THE FINANCIAL STATEMENTS

32 . FINANCIAL RISKS (CONT'D)

(c) Market risk (cont'd)

(iii) Price risk (cont'd)

The above impact on equity arose from the investments in equities which are classified as financial assets. The impact arising from changes in price risk to FVTPL equities of the investment-linked funds are retained in the insurance contract liabilities, and hence there is no impact on profit after tax for the financial year ended 2023.

The method used to derive sensitivity information and significant variables did not change from the previous reporting period.

(d) Operational risk

Operational risk is the risk of losses resulting from inadequate or failed internal processes, risk management policies and procedures, systems failures, human performance failures or from external events. The Company seeks to minimise exposure by ensuring appropriate internal controls and systems, together with trained and competent people are in place throughout the Company. The Company uses comprehensive risk self-assessments as well as Key Risk Indicators ("KRIs") assess and monitor inherent operational risks and the associated control effectiveness.

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NOTES TO THE FINANCIAL STATEMENTS

33 . FAIR VALUE HIERARCHY

Recurring fair values measurements

The table below analyses those financial instruments carried at fair value by their valuation method.

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial instruments are classified as Level 1 if their value is observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted prices is readily available, and the price represents actual and regularly occurring market transactions. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an on-going basis. These would include actively traded listed equities.

Where fair value is determined using unquoted market prices in less active markets or quoted prices for similar assets and liabilities, such instrument are generally classified as Level 2.

Level 2 valuation are mainly based on indicative fair market prices/index by reference to the quotations provided by financial institutions and brokers. If the market for a financial asset is not active, the Company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models.

Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). Such inputs are generally determined based on observable inputs of a similar nature, historical observations on the level of the input or other analytical techniques.

The Company recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the transfer has occurred. The fair value of an asset to be transferred between levels is determined as of the date of the event or change in circumstances that caused the transfer.

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NOTES TO THE FINANCIAL STATEMENTS**33 . FAIR VALUE HIERARCHY (CONT'D)****Fair value of financial instruments carried at fair value**

	Level 1 RM'000	Level 2 RM'000	Level 3 RM'000	Total RM'000
2023				
<u>Recurring fair value measurements</u>				
Financial assets				
FVTPL financial assets	5,838,997	17,689,512	28,386	23,556,895
Derivative assets	-	154	-	154
Total assets	<u>5,838,997</u>	<u>17,689,666</u>	<u>28,386</u>	<u>23,557,049</u>
Financial liabilities				
Derivative liabilities	-	5,471	-	5,471
Total liabilities	<u>-</u>	<u>5,471</u>	<u>-</u>	<u>5,471</u>
2022				
<u>Recurring fair value measurements</u>				
Financial assets				
FVTPL financial assets	5,409,845	15,962,888	27,043	21,399,776
Derivative assets	-	476	-	476
Total assets	<u>5,409,845</u>	<u>15,963,364</u>	<u>27,043</u>	<u>21,400,252</u>
Financial liabilities				
Derivative liabilities	-	1,362	-	1,362
Total liabilities	<u>-</u>	<u>1,362</u>	<u>-</u>	<u>1,362</u>

There were no transfers between Level 1 and Level 2 of the fair value hierarchy during the financial year.

Reconciliation of fair value measurements in Level 3 of the fair value hierarchy:

	2023 RM'000	2022 RM'000
FVTPL financial assets		
At 1 July	27,043	25,860
Fair value gains	1,343	1,183
At 30 June	<u>28,386</u>	<u>27,043</u>

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NOTES TO THE FINANCIAL STATEMENTS**34 . INSURANCE FUNDS**

The Company's activities are organised by funds and segregated into the Life Fund and Shareholders' Fund in accordance with the Financial Services Act 2013. The Company's statement of financial position and income statement have been further analysed by funds which include the Life Fund, Investment-linked Fund and Shareholders' Fund. The Life insurance business offers a wide range of participating and non-participating Whole Life, Term Assurance, Endowment and Investment-linked products.

STATEMENT OF FINANCIAL POSITION BY FUNDS 30 JUNE 2023

	Shareholders' Fund RM'000	Life Fund RM'000	Investment -linked Fund RM'000	Inter-fund elimination RM'000	Total RM'000
Assets					
Property, plant and equipment	1,674	74,540	-	-	76,214
Intangible assets	-	7,331	-	-	7,331
Right-of-use assets	414	7,761	-	-	8,175
Investment properties	209,000	262,630	-	-	471,630
Financial assets	1,128,335	17,872,945	5,283,796	-	24,285,076
- FVTPL financial assets	1,062,317	17,303,103	5,191,475	-	23,556,895
- AC financial assets	66,018	569,842	92,321	-	728,181
Derivative assets	4	115	35	-	154
Reinsurance assets	-	54,340	-	-	54,340
Insurance receivables	-	50,723	-	-	50,723
Other receivables	2,230,776	71,402	31,291	(2,237,018)	96,451
Cash and cash equivalents	56,512	569,220	578,625	-	1,204,357
Total assets	3,626,715	18,971,007	5,893,747	(2,237,018)	26,254,451

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NOTES TO THE FINANCIAL STATEMENTS**34 . INSURANCE FUNDS (CONT'D)****STATEMENT OF FINANCIAL POSITION BY FUNDS 30 JUNE 2023 (CONT'D)**

	Shareholders' Fund RM'000	Life Fund RM'000	Investment -linked Fund RM'000	Inter-fund elimination RM'000	Total RM'000
Equity, policyholders' fund and liabilities					
Share capital	200,000	-	-	-	200,000
Reserves	2,421,006	-	-	-	2,421,006
Total equity	2,621,006	-	-	-	2,621,006
Insurance contract liabilities	-	12,344,649	5,885,992	-	18,230,641
Deferred tax liabilities	380,328	42,601	(24,750)	-	398,179
Tax payables	2,616	1,101	(1,406)	-	2,311
Insurance payables	-	4,186,746	-	-	4,186,746
Other payables	17,284	2,383,727	32,606	(2,237,018)	196,599
Lease Liabilities	504	8,284	-	-	8,788
Derivative liabilities	267	3,899	1,305	-	5,471
Subordinated notes	604,710	-	-	-	604,710
Total policyholders' fund and liabilities	1,005,709	18,971,007	5,893,747	(2,237,018)	23,633,445
Total equity, policyholders' fund and liabilities	3,626,715	18,971,007	5,893,747	(2,237,018)	26,254,451

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NOTES TO THE FINANCIAL STATEMENTS**34 . INSURANCE FUNDS (CONT'D)****STATEMENT OF FINANCIAL POSITION BY FUNDS 30 JUNE 2022**

	Shareholders' Fund RM'000	Life Fund RM'000	Investment -linked Fund RM'000	Inter-fund elimination RM'000	Total RM'000
Assets					
Property, plant and equipment	1,779	77,450	-	-	79,229
Intangible assets	-	6,153	-	-	6,153
Right-of-use assets	538	6,762	-	-	7,300
Investment properties	209,000	262,610	-	-	471,610
Financial assets	1,003,089	16,150,728	4,571,603	-	21,725,420
- FVTPL financial assets	1,003,057	15,834,190	4,562,529	-	21,399,776
- AC financial assets	32	316,538	9,074	-	325,644
Derivative assets	23	352	101	-	476
Reinsurance assets	-	27,287	-	-	27,287
Insurance receivables	-	59,143	-	-	59,143
Other receivables	2,024,101	35,388	3,466	(2,019,265)	43,690
Cash and cash equivalents	87,290	1,279,149	229,735	-	1,596,174
Total assets	3,325,820	17,905,022	4,804,905	(2,019,265)	24,016,482

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NOTES TO THE FINANCIAL STATEMENTS**34 . INSURANCE FUNDS (CONT'D)****STATEMENT OF FINANCIAL POSITION BY FUNDS 30 JUNE 2022 (CONT'D)**

	Shareholders' Fund RM'000	Life Fund RM'000	Investment -linked Fund RM'000	Inter-fund elimination RM'000	Total RM'000
Equity, policyholders' fund and liabilities					
Share capital	200,000	-	-	-	200,000
Reserves	2,167,020	-	-	-	2,167,020
Total equity	2,367,020	-	-	-	2,367,020
Insurance contract liabilities	-	11,767,822	4,833,717	-	16,601,539
Deferred tax liabilities	329,425	(16,561)	(31,289)	-	281,575
Tax payables	7,761	9,383	(5,079)	-	12,065
Insurance payables	-	3,930,555	-	-	3,930,555
Other payables	16,226	2,205,732	7,090	(2,019,265)	209,783
Lease Liabilities	622	7,251	-	-	7,873
Derivative liabilities	56	840	466	-	1,362
Subordinated notes	604,710	-	-	-	604,710
Total policyholders' fund and liabilities	958,800	17,905,022	4,804,905	(2,019,265)	21,649,462
Total equity, policyholders' fund and liabilities	3,325,820	17,905,022	4,804,905	(2,019,265)	24,016,482

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NOTES TO THE FINANCIAL STATEMENTS**34 . INSURANCE FUNDS (CONT'D)****INCOME STATEMENT BY FUNDS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2023**

	Shareholders' Fund RM'000	Life Fund RM'000	Investment -linked Fund RM'000	Inter-fund elimination RM'000	Total RM'000
Gross earned premiums	-	1,826,178	1,274,048	-	3,100,226
Premiums ceded to reinsurers	-	(160,993)	-	-	(160,993)
Net earned premiums	-	1,665,185	1,274,048	-	2,939,233
Investment income	44,472	785,714	167,664	-	997,850
Realised gains/(losses)	15,017	(20,043)	1,010	-	(4,016)
Fair value gains	26,752	616,483	19,468	-	662,703
Fees and commission income	-	53,898	-	(30,161)	23,737
Other operating income/(expense)-net	5,239	57,182	(12,219)	-	50,202
Other revenue	91,480	1,493,234	175,923	(30,161)	1,730,476
Gross benefits and claims paid	-	(1,813,557)	(359,886)	-	(2,173,443)
Claims ceded to reinsurers	-	138,691	-	-	138,691
Gross change to contract liabilities	-	(489,366)	(1,052,275)	-	(1,541,641)
Change in contract liabilities ceded to reinsurers	-	8,068	-	-	8,068
Net benefits and claims	-	(2,156,164)	(1,412,161)	-	(3,568,325)
Fees and commission expense	(146)	(400,365)	(30,161)	30,161	(400,511)
Management expenses	(20,762)	(196,672)	(66)	-	(217,500)
Other expenses	(20,908)	(597,037)	(30,227)	30,161	(618,011)
Finance costs	(22,459)	-	-	-	(22,459)
Profit from operations	48,113	405,218	7,583	-	460,914

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NOTES TO THE FINANCIAL STATEMENTS**34 . INSURANCE FUNDS (CONT'D)****INCOME STATEMENT BY FUNDS****FOR THE FINANCIAL YEAR ENDED 30 JUNE 2023 (CONT'D)**

	Shareholders' Fund RM'000	Life Fund RM'000	Investment -linked Fund RM'000	Inter-fund elimination RM'000	Total RM'000
Profit from operations	48,113	405,218	7,583	-	460,914
Inter-fund transfer:					
From Life Fund					
to Shareholders' Fund	90,000	(90,000)	-	-	-
Profit before taxation	138,113	315,218	7,583	-	460,914
Taxation	(68,928)	(100,417)	(7,583)	-	(176,928)
Net profit for the financial year	69,185	214,801	-	-	283,986

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NOTES TO THE FINANCIAL STATEMENTS**34 . INSURANCE FUNDS (CONT'D)****INCOME STATEMENT BY FUNDS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022**

	Shareholders' Fund RM'000	Life Fund RM'000	Investment -linked Fund RM'000	Inter-fund elimination RM'000	Total RM'000
Gross earned premiums	-	1,876,341	1,292,705	-	3,169,046
Premiums ceded to reinsurers	-	(133,689)	-	-	(133,689)
Net earned premiums	-	1,742,652	1,292,705	-	3,035,357
Investment income	39,938	731,193	129,352	-	900,483
Realised gains/(losses)	1,183	(36,586)	(53,004)	-	(88,407)
Fair value losses	(59,852)	(983,532)	(578,230)	-	(1,621,614)
Fees and commission income	-	47,713	-	(28,855)	18,858
Other operating income/(expense)-net	3,959	39,038	(22,455)	-	20,542
Other revenue	(14,772)	(202,174)	(524,337)	(28,855)	(770,138)
Gross benefits and claims paid	-	(1,670,959)	(298,289)	-	(1,969,248)
Claims ceded to reinsurers	-	112,190	-	-	112,190
Gross change to contract liabilities	-	972,298	(484,871)	-	487,427
Change in contract liabilities ceded to reinsurers	-	(34,159)	-	-	(34,159)
Net benefits and claims	-	(620,630)	(783,160)	-	(1,403,790)
Fees and commission expense	91	(398,977)	(28,855)	28,855	(398,886)
Management expenses	(10,922)	(189,525)	(48)	-	(200,495)
Other expenses	(10,831)	(588,502)	(28,903)	28,855	(599,381)
Finance costs	(22,449)	-	-	-	(22,449)
Profit from operations	(48,052)	331,346	(43,695)	-	239,599

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NOTES TO THE FINANCIAL STATEMENTS**34 . INSURANCE FUNDS (CONT'D)****INCOME STATEMENT BY FUNDS****FOR THE FINANCIAL YEAR ENDED 30 JUNE 2022 (CONT'D)**

	Shareholders' Fund RM'000	Life Fund RM'000	Investment -linked Fund RM'000	Inter-fund elimination RM'000	Total RM'000
Profit from operations	(48,052)	331,346	(43,695)	-	239,599
Inter-fund transfer:					
From Life Fund					
to Shareholders' Fund	90,000	(90,000)	-	-	-
Profit before taxation	41,948	241,346	(43,695)	-	239,599
Taxation	(56,815)	30,291	43,695	-	17,171
Net profit for the financial year	(14,867)	271,637	-	-	256,770

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NOTES TO THE FINANCIAL STATEMENTS**35 . INVESTMENT-LINKED FUND**

The statement of financial position and statement of comprehensive income of Investment-linked funds have been adjusted for the following assets, liabilities and net asset value of HLA Dana Suria Fund which has been eliminated as the fund invested 50% in HLA Venture Dana Putra during the financial year:

	2023	2022
	RM'000	RM'000
<u>Statement of financial position</u>		
Assets		
Financial assets - FVTPL financial assets	6,708	5,371
Other receivables	7	8
Total assets	<u>6,715</u>	<u>5,379</u>
Liabilities		
Tax payables	-	2
Deferred tax liabilities	(16)	(10)
Total liabilities	<u>(16)</u>	<u>(8)</u>
Net asset value	<u>6,731</u>	<u>5,387</u>
<u>Statement of comprehensive income</u>		
Net earned premiums	<u>1,419</u>	<u>1,112</u>
Realised gains/(losses)	6	(3)
Fair value losses	(87)	(653)
Other revenue	<u>(81)</u>	<u>(656)</u>
Gross change to contract liabilities	<u>(1,344)</u>	<u>(508)</u>
Net benefits and claims	<u>(1,344)</u>	<u>(508)</u>
Losses before taxation	(6)	(52)
Taxation	6	52
Net profit for the financial year	<u>-</u>	<u>-</u>

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NOTES TO THE FINANCIAL STATEMENTS

36 . EQUITY COMPENSATION BENEFITS

Executive Share Scheme ("ESS")

The ESS comprises of the Executive Share Option Scheme 2013/2023 ("ESOS") and the Executive Share Grant Scheme ("ESGS").

(I) ESOS

The ESOS which was approved by the shareholders of HLFM on 30 October 2012, was established on 12 March 2013 and would be in force for a period of ten (10) years.

The ESOS would provide an opportunity for eligible executives who had contributed to the growth and development of the Company to participate in the equity of HLFM.

Options granted on 30 March 2018 ("Options 2018")

10,450,000 options granted at an exercise price of RM17.12 on 30 March 2018 were fully lapsed on 29 November 2021.

(II) ESGS

The ESGS which was approved by the shareholders of HLFM on 29 October 2013, was established on 28 February 2014 and would end on 11 March 2023.

The ESGS would provide the Company with the flexibility to reward the eligible executives for their contribution with awards of HLFM's shares without any consideration payable by the eligible executives.

There are no share granted under the ESGS to date.

A trust has been set up for the ESS and it is administered by an appointed trustee. This trustee will be entitled from time to time to accept financial assistance from the Company upon such terms and conditions as the Company and the trustee may agree to purchase ordinary shares of HLFM from the open market for the purposes of this trust.

The number of ordinary shares of HLFM held by the Trustee are as follows:

	2023	2022
	'000 units	'000 units
As at 1 July/30 June	4,092	4,092

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NOTES TO THE FINANCIAL STATEMENTS

37 . SIGNIFICANT EVENTS DURING THE FINANCIAL YEAR

There were no significant events during the financial year under review.

38 . SUBSEQUENT EVENTS AFTER THE FINANCIAL YEAR

There were no material subsequent events after the financial year that require disclosure or adjustments to the financial statements.